FORMULATION OF THE 1990 FARM BILL
(OATS AND BARLEY PROGRAMS)

HEARING

BEFORE THE

SUBCOMMITTEE ON
WHEAT, SOYBEANS, AND FEED GRAINS

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

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FORMULATION OF THE 1990 FARM BILL

(Oats and Barley Programs)

THURSDAY, NOVEMBER 9, 1989

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WHEAT, SOYBEANS, AND FEED GRAINS,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 1302, Longworth House Office Building, Hon. Dan Glickman (chairman of the subcommittee) presiding.

Present: Representatives Johnson, English, Jontz, Campbell, Long, Marlenee, Smith, and Schuette.

Also present: Representative Stallings, member of the committee.

Staff present: Alice Devine, minority associate counsel; Francie Monaghan, clerk; Greg Frazier, Anne C. Keys, Jame A. Davis, Joe Dugan, Cliff Humphrey, and Sondra Feldstein.

OPENING STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. GLICKMAN. Good morning.

Let me begin by telling the witnesses that at 10 o'clock we have to recess this hearing because the full committee is meeting and the chairman has asked me to do that.

At this stage, I cannot tell you at what point we will restart the hearing because there is a disaster assistance bill.

So what I would ask the witnesses to do is to wait until we give you further word as to how long we are going to be because if we are 2 hours marking up a bill, then we are just going to have to reschedule the hearing.

We will, of course, include all statements for the record, and we will attempt to get the hearing restarted as quickly as possible, but I just wanted to alert folks to that. This thing came up after this hearing was scheduled. So the subcommittee cannot meet in a hearing while the full committee is in markup and that is the situation right now.

So I am going to keep my statement to a minimum today.

I welcome the witnesses here. Over the last few years, we have witnessed a drastic drop in oats production, while, ironically, market prices have risen. Prices have risen, as most of us are aware, because consumers are eating more oats in their diets as a result of scientific breakthroughs proclaiming that oats reduce cholesterol levels in people's bloodstreams.

It is obvious to me that if higher market prices for oats cannot and are not inducing farmers to plant more oats, then something is out of sync with the oats program.

Similarly, barley, having the natural advantage of being a food and feed grain, may not have an adequate target price based on the latest research.

Also, the combining of the higher market-priced malting barley with that of the lower priced feed barley has adversely distorted USDA's calculations of barley deficiency payments resulting in unfair treatment to feed barley producers.

To discuss these issues in more detail, we have here today witnesses from the barley and oats growers associations who will present us with their views on how to handle these problems; and, USDA will share with us their feelings on the effects that these proposals may generate.

In general, I think it is important to recognize and determine what exactly is causing these problems now so that we can go forward next year to correct them in the 1990 farm bill.

And I would say that while the discussion today is limited to oats and barley, implicit in this discussion is how we calculate target prices generally. You cannot just separate these two and whether it is corn or wheat or whether it is some of the other commodities under the jurisdiction of other subcommittees, these commodities and their target prices relate to each other and cause producers to plant one crop versus the other crop.

If the target prices are historically out of sync or not currently updated, then it will cause distortions unrelated to the marketplace and this is not what we ought to be doing as people writing farm policy.

I would also like to commend two members, Mr. Stallings from Idaho, who will sit on the subcommittee today, and Mr. Johnson, whose efforts to correct these inequities in the oats and barley program are commendable. They have two bills which address the issues and they are here today and they have both been tenacious in their efforts to try to get the subcommittee to look at this particular problem.

And so now I would yield to my colleague, the ranking minority member, Mr. Marlenee.

OPENING STATEMENT OF HON. RON MARLENEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

Mr. MARLENEE. Mr. Chairman, I hope that I misunderstood you when you said that the calculation of the deficiency payment sometimes resulted in a discrimination against feed barley producers. I think it is the other way around, that calculating deficiency payments on barley across the board may result in inequities to those malting barley producers. I believe that is what you intended to say and I would like to correct the record in that, if you did not.

If you did, well, I think we have to come to some sort of—I must try to educate you and I hope that the panel of witnesses in front of us address this question.

Barley is barley is barley is not the case. We have malting barley. We have feed grain barley and there is a wide variation in

the prices that the producers receive for that. Also, there should be a difference in the disaster payment. There should be a difference in the deficiency payment, if there is one.

All wheat is not the same. We have Durham wheat, Spring wheat, Winter wheat, and Soft wheat. There is a great variation there and those variations need to be taken into account when we address farm programs.

I assume that you will address those questions as we discuss this legislation and I have taken quite enough time, Mr. Chairman. I recognize the need to move expeditiously and yield back the balance of my time.

Mr. GLICKMAN. Thank you, Mr. Marlenee.

I think my statement is correct as it is stated and if the witnesses have any difference with it, why do we not let them state it. I am not sure we are in substance disagreeing with each other, but I am not going to challenge the statement right now. We will see what the folks out there say.

Do any other members of the subcommittee wish to make an opening statement before we begin?

Mr. JOHNSON. I will submit one.

Mr. GLICKMAN. Mr. Johnson, one of the prime movers of this subject, will submit his statement.

[The statement of Mr. Johnson follows:]

OPENING STATEMENT OF CONGRESSMAN TIM JOHNSON
WHEAT, SOYBEANS AND FEED GRAINS SUBCOMMITTEE
HOUSE AGRICULTURE COMMITTEE
NOVEMBER 9, 1989

REGARDING TARGET PRICE LEVELS AND PROGRAM PROVISIONS FOR OATS AND BARLEY

Mr. Chairman, I want to thank you for holding this hearing today on a subject that both of us have taken a keen interest in -- the production of oats in the United States. I also appreciate the work that has been done by my colleague from Idaho in bringing the concerns of barley producers to the attention of Congress.

Oat production this year seems to have rebounded from the disastrous 1988 crop year, but this year's 371 million bushels of production is still lower than the early '80s average of 506 million bushels a year. Another number that concerns me is the amount of imports that have been increasing at the same time that domestic production has been decreasing. We have gone from importing 2 million bushels of oats at the beginning of this decade to a near record high of more than 60 million bushels in 1988. At the same time, we are seeing the demand for oats for food consumption doubling to an expected 130 million bushels by 1991.

What has caused all of this? It stems from several factors related to federal farm policy, and it is for this reason that I introduced H.R. 1245. This legislation would raise the oats target price to be more in line with its value as a food as well as a feed commodity. It would also establish a "feed grains" base to allow producers the flexibility to plant any combination of corn, grain sorghums, barley, oats and rye. I don't think that we will find anyone who would seriously argue with the fact that recent farm legislation has been partly to blame for the problems we are seeing in oats production. In fact, a recently completed USDA study by the Economic Research Service prepared as background for 1990 farm bill consideration indicated that, "since 1982, Government programs have created a competitive disadvantage for oats. . . . Large deficiency payments encourage producers to plant crops that are in surplus, such as corn, wheat, and barley, rather than crops in short supply such as oats. Finally, the 1985 Act tended to reduce oats production through the conservation reserve program, which has removed the least productive land from production. In many instances, this land was planted to oats prior to entry into the program."

Farmers have long known that oats are very beneficial to the environment as well, and this is another reason that I would like to see more planted. The need for fertilizers and pesticides is lessened when oats are used in a rotation or as a starter crop because they replenish the soil and also help to control erosion. I think that the legislation which has been introduced by Mr. Jontz will also help towards fostering production systems that will be able to utilize oats if producers wish to and that is why I am joining him in cosponsoring the Sustainable Agricultural Adjustment Act.

I look forward today to hearing how USDA intends to address the problem that it has highlighted. I am also pleased to welcome John Bollingberg, a member of the board of directors of the American Oat Association and Ms. Pat Henderson, the new Executive Director of the AOA, here today.

Mr. GLICKMAN. Mr. Campbell.
Mr. CAMPBELL. No comments, Mr. Chairman.
Mr. GLICKMAN. Mr. Stallings.

OPENING STATEMENT OF HON. RICHARD H. STALLINGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IDAHO

Mr. STALLINGS. Let me just be very brief, Mr. Chairman and members of the subcommittee.

I appreciate you holding this hearing on barley and oat legislation as a part of the 1990 farm bill. I would also like to thank the witnesses for their testimony.

As we continue to work on the 1990 farm bill, we face many tough questions and many difficult decisions. The hearing this morning is an important part of the effort.

Barley and oats are vital crops in my home State of Idaho and to the West in general. They provide an alternative to traditional crops of potatoes, beans, wheat, and other feed grains.

While changes in the operation of the barley and oat program will certainly be addressed in the 1990 farm bill, it is imperative that we take action now to solve this problem.

Mr. Chairman, I have introduced H.R. 2565, which would exclude the malting barley price when determining deficiency payments, require the Secretary to establish the target price for barley for the 1990 crop based on all feed and food uses.

If the target price for barley is based on its relative feed value to corn, then to be consistent the deficiency payment should be based only on feed barley uses.

A recent study demonstrated the relative target prices for Federal program crops are out of line with actual production costs, final feed values, and market need. The crops which are significantly under valued are barley and oats.

In short, Mr. Chairman, Congress should treat barley and oats as separate commodities in the 1990 farm bill, rather than include these crops in the general category of feed grains along with corn, sorghum, and rye.

The current method of determining loan and target prices for barley and oats, which is to evaluate its feed value relative to corn, deprives producers of the true value of their product.

Mr. Chairman and members of the subcommittee, thank you for holding a hearing on this legislation. This is an excellent panel of witnesses and I am eager to hear their testimony.

Mr. GLICKMAN. Thank you very much, Mr. Stallings.

And again, I want to compliment Mr. Johnson and Mr. Stallings for pushing this issue forward to try to get some equity into the target price situation.

They may have opened a bit of a Pandora's box as we consider all target prices and their relation to each other, but I do not see how we can avoid doing that and I also think this is a good place to start.

So we are delighted to have as our first group of witnesses today our new Administrator of the ASCS office, Mr. Keith Bjerke.

So why do you not go ahead and introduce the folks that are with you and you may begin your statement. Your entire state-

ment will appear in the record. So you need not feel compelled to reread what you have submitted to us.

In fact, it would be very helpful for all witnesses to know that it makes us feel better about the hearing if witnesses do not reread what they have submitted to us because we can read. I want to assure everybody out there of that.

So go ahead and begin.

Mr. MARLENEE. Mr. Chairman, I cannot read.

Mr. GLICKMAN. Oh, Mr. Marlenee says he cannot read, but I know better. [Laughter.]

Mr. MARLENEE. I forgot my glasses.

STATEMENT OF KEITH BJERKE, ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY RANDY WEBER, DIRECTOR, AND THOMAS VON GARLEM, ASSISTANT DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATORS

Mr. BJERKE. Thank you, Mr. Chairman. I am Keith Bjerke and you pronounced my name quite correctly, which is unusual for Washington. Bjerke has not been a standard name in——

Mr. GLICKMAN. We not only can read in Kansas, but we have learned to spell as well. I want you to know that. [Laughter.]

Mr. BJERKE. Yes, sir.

I have with me today Mr. Randy Weber and Mr. Tom Von Garlem, also members of my staff at ASCS.

We thank you, Mr. Chairman and members of the subcommittee for this opportunity to appear before you and discuss H.R. 2565, a bill concerning malting barley and feed barley, and H.R. 1245, a bill relating to oats.

And I will, on your suggestion, be rather brief in our presentation. I will try to hit some of the highlights for you this morning and submit the rest for the record.

One, H.R. 2565 would remove the Secretary's discretion over designating or not designating barley to receive deficiency payments.

Two, it would base the 1989 deficiency payments for barley on only the feed barley price, excluding the price for malting barley.

And three, set the established price or target price for 1990 crop barley based on all feed and nonfeed uses of barley, but at a minimum of $2.93 per bushel.

With regard to No. 1, the Secretary's discretion over designating barley to be eligible for payments, we view this as a very minor issue because at this point in our history of this farm bill barley has always been included and has always been designated as such and we feel would probably be so in the future.

With regard to two and three, raising the target price and lowering the market price for determining barley deficiency payments, we view this two prong change as a major issue based on several points, not the least of which is the cost to the Government.

Let me review the proposed increase in the barley target price. Realigning target price at a piecemeal basis is fraught with problems because of possible commodity budget and market effects.

We find the proposed increase in barley target price objectionable because it is one-sided, not market-oriented, and costly. Clear-

ly setting the minimum target price at $2.93 per bushel is arbitrary.

In particular, the oats supply and demand imbalance of recent years and the relation of the oat target price are not addressed.

Furthermore, increasing the incentive for barley producers to chase target prices rather than to respond to market price is contrary to the general industry support for actions that encourage producers to respond to market signals.

It is a common misconception that the barley target price has been established on the feed value relationship to the target price for corn.

The 1989 barley target price was $2.43 per bushel, about 86 percent of the corn target price, but 100 percent of the feed value of corn on a pound per pound basis.

The 1989 corn target of $2.84 per bushel divided by 56 pounds per bushel gives a per pound price of $0.0507. At 48 pounds per bushel the 1989 barley target per pound was $0.0506 or virtually identical to the corn.

If the 1989 barley target price had been based on the feed value relationship to corn, it would have been $2.31 a bushel, or 12 cents below the announced 1989 target price.

One could say the 1989 barley target price had a 12-cent premium built in for all barley, which covers both feed and malting barley.

Now let me turn to the proposal for excluding the malting barley price and calculating the average market price that is used in determining deficiency payments.

The use of average prices is a problem that is inherent in determining deficiency payments of all program crops. When a segment of the market receives a higher price, the average price rises and the payment rate falls.

In a given year, producers who receive a market price that is lower than the average do not get a bigger deficiency payment, while those who receive a higher than average price do not get a smaller payment.

Some argue this is unfair, but no workable alternatives have been found to this point.

This aspect of the program is not peculiar to barley. For example, higher priced Acala cotton, high protein wheat, and long grain rice are included in calculating the average market price and, hence, deficiency payment rates for Upland Cotton, all wheat, and all rice, respectively.

The combination of both excluding malting barley price in computing deficiency payments and raising the barley target price based on the food and feed value would legislate an objectionable program inconsistency. That is the bill would require the use of food value of barley in setting the target price, while simultaneously mandating the exclusion of the prices paid with respect to barley's food value in determining average prices received by farmers.

The result would be an economically unjustifiable payment rate and an excessive increase in program outlays. The likely response from Government to these results became clear when it would have to impose more vigorous production controls on barley to control costs.

In the end, the barley industry could be made worse off.

Let us take a look at the Government's cost. The first effects would show up in fiscal year 1990 due to the change in the payment rate for 1988 and 1990 crop barley.

Mandating the use of only feed barley price in calculating 1989 crop deficiency payments would increase fiscal year 1990 outlays by $55 million.

Also, increased advanced payments from raising the target price to $2.93 per bushel for the 1990 crop would add about $75 million to fiscal year 1990 outlays for a total increase in fiscal year 1990 of $130 million.

H.R. 1245, aimed at increasing the incentive to produce oats, poses problems similar to those of H.R. 2565 in its attempt to realign target prices on a piecemeal basis.

H.R. 1245 would amend the 1949 act to set the target price for 1990 crop oats at $2.52 and amend section 504(b)(1) of the 1949 act to create a combined feed grain-based acreage for the 1990 crop year based on the previously established bases for corn, grain sorghum, barley, oats, and rye, and preclude the Secretary's discretion in establishing separate bases for one or more of the different types of feed grains.

Setting the 1990 oat target price at $2.52 per bushel is a full $1.07 higher than the $1.45 rate recently announced under the 1990 Feed Grains Program.

In the case of H.R. 2565, that deals with barley. H.R. 1245 arbitrarily establishes the oats target price, is primarily one-sided in its effect, and is costly for the Government.

Under the current baseline, no deficiency payments are expected to be made for oats in 1990, since the farm price is expected to exceed the $1.45 target price.

However, with a $2.52 target price, relatively large deficiency payments would have to be made for oats.

H.R. 1245 would prevent the Secretary from establishing separate bases for one more of the different types of feed grains. Crop acreage bases for corn and grain sorghum are currently combined for program purposes. Oats and barley now have been separate bases, but had been combined prior to the 1990 Feed Grain Program announcement.

The bill would thus allow farmers to plant oats in the feed grain program for the $2.52 target price on what is currently corn, sorghum, and/or barley CAB.

H.R. 1245 would also allow producers with a history of planting rye to plant oats, barley, or corn for deficiency payments. Some of this acreage would shift rye acreage to one of the other feed grains so producers could get deficiency payments.

Depending on the crop produced, the increase in program costs from permitting acreage with a history of being planted to rye to being planted to oats, barley, or corn for deficiency payments would increase program costs.

Some offsets would occur due to the reduced outlays for barley and corn. Payment acreage and deficiency payment rates for barley and corn would decline because of the switch in feed grain program plantings from corn and barley to oats.

As with the proposed barley changes, if the target price for oats is so attractive that oats production starts costing a lot of money, supply controls will be instituted to control the costs and those who are pushing for this legislation may end up worse than they are now.

I might add, we have taken what we believe to be a positive step to help increase oats production. They are splitting the combined barley/oats base under the 1990 Feed Grain Program to ensure oat plantings on acreages that otherwise would likely have been planted to barley; excluding oats from limited cross compliance restrictions beginning with the 1987 feed grain program; keeping the oats acreage reduction percentage requirement below those of other feed grains for each crop years of 1988 through 1990; and, permitting the temporary transfer to oats base of any part of the farm acreage base other than soybean acreage and Extra Long Staple cotton base.

The first two actions will enable producers to exceed their oats base and remain in the program for other program crops.

If producers do plant beyond their oats base, however, they will have to forego program benefits on oats only. Prior to our recent action to split barley and oats bases, if a producer planted beyond his barley/oats permitted, he no longer would be in compliance with the Barley Program.

This, in our opinion, was a major disincentive, an obstacle to planting of more oats. Splitting the barley and oats base will, in our opinion, result in greater production of oats since producers who over plant their oats base no longer will be in jeopardy of losing their barley deficiency payments.

I would summarize by saying that selectively increasing target prices without regard to other crop target prices in an attempt to increase plantings of a specific crop can lead to detrimental effects for producers and consumers of other program crops and lead to expanded Federal outlays.

The Department's position is that any target price change should take place in the full light of the 1990 farm bill debate so that all affected and potentially affected parties can have an input.

Mr. Chairman, this concludes my statement and I would be happy to respond to any questions you might have.

[The prepared statement of Mr. Bjerke appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you for your testimony.

You do not deny that in calculating the deficiency payment for barley, malting barley weighs more heavily in the calculation than what a 30-percent share of production would necessitate, do you?

Mr. BJERKE. Excuse me, sir?

Mr. GLICKMAN. Well, the malting barley weighs more heavily in the calculation of the target price than what its corresponding share of the actual production of barley out there.

Mr. BJERKE. We have tried over time to take an all barley price, which includes both feed barley and malting barley and it is weighted I believe now on a 5-month average and all barley going to market is calculated in that target price.

Mr. GLICKMAN. Yes, but as I understand it, between 1988 and 1990, since malting barley prices have been significantly higher

than feed barley prices during the deficiency payment calculation period, all barley have had or will have to repay their advanced deficiency payments because the malting barley price increased the overall 5-month average price for barley. As a result, feed barley growers have had or will have to repay their advanced deficiency payments even though prices for feed barley have not reached the target price.

That just seems to me to be an inequity that we never intended when we wrote this program and we are trying to figure out is there a way to deal with that problem, among other kinds of problems. I do not see anything in your statement that indicates any real solution to that.

Mr. BJERKE. We believe that all barley has a usage of some kind and in my particular farm, before I came to Washington, we raised malting barley varieties, but in all cases did not meet a malting barley price because of various factors that affect the malting barley industry.

Mr. GLICKMAN. I think my point is, the way that the barley target price is calculated is based upon an input side which is not very realistic and I suppose a second problem that I have has to do with the fact that since 1981, USDA has calculated target prices for all feed grains on their feed value relative to the feed value of corn. Is that correct?

Mr. BJERKE. No, sir.

Mr. GLICKMAN. Not correct. Tell me how you do it then.

Mr. BJERKE. We have, as I mentioned in the testimony, in this year about a 12-cent increase in barley target price above what would be construed to be the feed value.

Mr. GLICKMAN. So these feeding charts which you have used for about 20 years, they do not bind you in terms of the determination of target prices?

Mr. BJERKE. No, sir.

Mr. GLICKMAN. So what you are telling me is you do take advantage of advancements in feed grain varieties and uses and you have updated these charts so as to provide a proper alignment of target prices?

Mr. BJERKE. The price differential of malting barley vis a vis feed barley has been much greater in recent years than it has been traditionally, but that is not to say that there has not been an increase in barley target price over and above feed value.

In the charts we take prices, not relationships, in determining the price.

Mr. SMITH. Will the chairman yield on that point?

Mr. GLICKMAN. Yes, I would be glad to yield.

Mr. SMITH. Thank you, Mr. Chairman.

I am interested in the manner in which we are not identifying the proper feed barley prices and I am wondering, and I am not to suggest your business or make a suggestion that you have not considered, but if you have 70 percent feed barley in this country and 30 percent malting barley, then it seems to me that you could reach some kind of an arbitrary number by volume that would allow the Department to identify malting barley or separate it from feed barley.

Now in your country and mine if you do not make the weight you might plant malting barley. If you do not make the weight, it becomes feed barley, right?

Mr. BJERKE. Yes, sir.

Mr. SMITH. So it seems that the malting barley price should not drive the whole deficiency payment question and I think that is what you are mentioning in your program.

Now, having gone through that again, can the Department correct this inequity merely by rule or regulation determining by another formula what is the proper relationship between malting and feed barley——

Mr. GLICKMAN. Would the gentleman just withhold because I am going to have to leave in a couple of minutes and I think that is an appropriate question to answer whether you can take care of it administratively in a sensible way.

But I want to go back quickly because we may have to stop this thing. I mentioned before you came here, Bob, we have to stop this hearing at 10 o'clock because of the full committee and recess it until afterwards.

Are you at all looking at ways at this stage to realign target prices generally in connection with the 1990 farm bill?

Mr. BJERKE. All options for the 1990 farm bill that we are aware of are being studied. As far as having any concrete recommendations, we are not prepared at this hearing to go into what we think would be a better program for 1990.

Mr. GLICKMAN. One of the things that strikes me is whether you would consider calculating target prices away from feeding value to cost of production, particularly in these feed grains, whether that might not make more sense.

But as of the current time, you have no testimony whatsoever as to thinking within the Department about target prices generally and how they should relate to each other in terms of the 1990 farm bill?

Mr. BJERKE. No, sir.

Mr. GLICKMAN. Are you going to do that?

Mr. BJERKE. Yes, sir.

Mr. GLICKMAN. There has been some discussion about the fact that the target price for corn is out of kilter with respect to other commodities. Do you have any comments on that?

Mr. BJERKE. We believe that target prices in all aspects of the 1990 farm bill will be fully debated as we get to the end of this year and the beginning of next year, but are not prepared at this juncture to establish whether one or the other is out of line.

Mr. GLICKMAN. Well, do you have any comments about whether any commodities in fact are—the target prices of any commodities under your jurisdiction seem to be too high or too low?

Mr. BJERKE. No, sir.

Mr. GLICKMAN. I mean do you have any personal thoughts on that?

Mr. BJERKE. We chose to announce a split in the oats/barley base because clearly the oats acreage has been diverting to barley because of some relationship between the oats and barley deficiency payments and that oat producers have chose to raise barley instead. So that would indicate there is some problem in that area.

Mr. GLICKMAN. Do you know what percentage of oats that are imported that are consumed in this country?

Mr. BJERKE. I do not have exact numbers.

Mr. GLICKMAN. Is it over 30 percent?

Is there any reason why we have to be importing any oats?

Mr. BJERKE. I cannot think of a one except for price. If they can buy oats cheaper somewhere else, I suppose that is the factor.

About one-third of our production was imported in 1988.

Mr. GLICKMAN. One-third imported?

Mr. BJERKE. About one-third.

Mr. GLICKMAN. You see, one of the goals is to try to—and whether we do it in this legislation of Mr. Stallings and Mr. Johnson, is to try to come up with a sensible policy by which oat growers have the same incentives that other feed and food grain producers have so that maybe they just might grow those so we do not have to import one-third of our oats and so that General Mills and Kellogs do not have to use in every box of Cheerios one-third Finish or Danish grown oats and they can be Dakota, or Montana or wherever it is grown oats. I mean that seems senseless to me that we are not working to that.

Mr. BJERKE. And that is why we decided in the 1990 bill to separate the bases and allow oat producers to grow as much oats as they want to without having any effect on any other program crop.

Mr. GLICKMAN. That is right and I was involved in that decision.

All right. Well, we thank you very much for your testimony.

I yield to my colleague, Mr. Marlenee.

Mr. MARLENEE. There is a lot of inequities that exist within the structure of the same commodity, as I outlined at the beginning of the hearing.

Have you given any thought to separating, for instance, malting barley from feed barley so the inequities on both sides on the feed barley side and on the malting barley side are taken away?

Mr. BJERKE. I guess I would defer to the malting industry and ask them if people that plant the malting variety and end up with a feed variety would not be discriminated against if they were in the wrong program crop, but we would certainly want input from the barley growers in the industry as to how that would be structured.

Mr. MARLENEE. Well, the producers of malting barley get a tremendous amount of money invested into that crop. For instance, in our area $30 an acre for electrical costs and irrigation is not unusual and should we have a disaster, why that goes down the tube and disaster payments based on feed barley prices are not equitable.

Likewise, the feed barley producers have a gripe when they are averaged in with malting barley and there is a good malting barley sale.

I would urge you—well, I would request that you examine how you might separate the two out so that we could have a more equitable treatment of that particular commodity and especially if you would do that please.

Randy, are you going to make a little comment here?

Mr. WEBER. Not right now, no.

Mr. MARLENEE. I appreciate your appearing before the committee and welcome you up here. Some of the faces down there are

quite familiar. We have seen them a number of times and welcome their expertise in these areas and I welcome you, Mr. Bjerke.

Mr. BJERKE. Thank you, sir.

Mr. MARLENEE. Thank you.

Mr. JOHNSON [acting chairman]. Mr. Bjerke, I wonder if you would elaborate a little bit on USDA's assumption that simply splitting the oats and barley base for the 1990 year will really significantly increase oats plantings.

I would have some concern that there remains that basic incentive to plant barley because of the current target price and without addressing the target price issue, that we are not going to significantly see an increase in oats planting.

Any comment about any kind of estimated increase in oats production that you think that a split in the base will create, and if so, why?

Mr. BJERKE. I do not know if we would have an exact number of increase. Certainly the incentive, we think, would be back to the oats producer whereas he is not restricted by base on the amount of oats that he wants to grow and any market signals that he can receive, whether it be contract or otherwise, that would indicate a demand for oats would encourage him to fill that market and produce it at any level that he thinks is profitable.

On the other hand, the barley producer cannot exceed his base and hence then will be restricted to the amount of barley——

Mr. JOHNSON. You would agree that he would continue to plant his full barley base prior to going on to oats?

Mr. BJERKE. Yes, sir.

Mr. JOHNSON. I wonder if you would elaborate a bit on the—Chairman Glickman mentioned briefly to you some concern about the charts that USDA uses as feeding charts and I am not sure that I quite understood where we are in that process.

USDA has been criticized in the past for using feeding charts that some allege are 20 years old and which do not reflect advancements in feed grain variety and uses and the suggestion is made that the charts need to be updated.

Are you saying that they have been updated, or that outside the use of the charts that you are using other external information in determining appropriate target price levels?

Mr. BJERKE. I am going to ask Mr. Weber to respond, if he will, because as I understand it, the charts were instrumental in original relationships, but as far as establishing target price, the charts have very little impact.

Mr. WEBER. That is true, Mr. Chairman. We in the case of loan rates do use a feed-value relationship. That relationship is from the studies that were done quite some time back. I know that some people have been saying that we currently use a 95 percent feed-value relationship on barley. There are some current studies that apparently indicate that may be a little higher. We do use the 95 percent, but that value does not come into consideration and did not come into consideration when the barley target was set for the last 2 years.

Mr. JOHNSON. Also, a follow-up on some comments that Mr. Glickman was making to Mr. Bjerke. If you had a choice of wheth-

er to base target prices on feeding value or cost of production, do you currently have a preference, an inclination?

Mr. BJERKE. I have done some work in my lifetime on cost of production and knowing that there is about as much versus malt value of barley, and I think either one is frocked with inconsistencies and problems.

Somewhere you have to come up with a program that is relatively consistent and relatively national in scope and we believe very firmly that barley is barley and wheat is wheat and that the relationships of one variety or one use of that commodity to the other needs to be factored into that formula and try to segregate it out to specific uses.

Mr. JOHNSON. Is USDA open to the possibility of a transition to a cost of production formula?

Mr. BJERKE. As I said earlier, I believe, Mr. Johnson, we will look at all things that we are asked to look at in preparation for the 1990 farm bill.

If you or anyone else has any good thoughts on how we could establish a fair cost of production nationwide, crop to crop, we would certainly like to look at it.

Mr. JOHNSON. Well, thank you.

As has been discussed here, there is very strong lingering concern on the part of a number of us on the level of oats importation that we continue to see. We have seen some rebound in oats planting. It still is not anywhere close to where we were at the start of the decade. We still have a tremendous reliance on importation of oats because of the new human consumption demand for it.

We can wait till the 1990 farm bill, but there is a—I think most people would agree that the one crop that is very clearly out of line as opposed to all the rest is oats in terms of target prices, and I think there is a great deal of skeptism on the part of a lot of us that simply splitting the base will be sufficient to create the incentives that we need to have greater oats planting and that this is going to be simply treading water until we look at the—if we have to wait till the overall 1990 farm bill to address the problem of oats target prices relative to all the rest.

I appreciate your concern that it is difficult to look at one out of context with all the rest of the relationships, but I do believe it is the oats target price that is far and away out of line and causing this tremendous pressure for imported oats product.

Well, I have exhausted my time and I would move on to the gentleman from Idaho, Mr. Stallings.

Is Mr. Smith—all right. Mr. Smith.

Mr. SMITH. Thank you.

Just quickly, Mr. Chairman, following your point, it seems to me from your statement that you are suggesting that there should be no change simply because one commodity impacts another until the 1990 Food Security Act is reviewed when all commodities will be reviewed and I guess you are right. There is probably no chance for these bills this session of Congress. By the time they are reintroduced again, we are into the 1990 Food Security Act question. Yet—I want to return to my question earlier.

It seems to me that there are glaring problems with oats and surely there are glaring problems between malt and feed barley. I

think we will agree on that. The question is, how to correct it if we do not obviously do it through the Department then we are going to lose another crop year in 1990, which these negative impacts will affect and we will not try to answer this problem until the 1991 crop year.

So my question again is, are you reviewing changes in the method by which you compute the target issue for malting barley and feed barley, and are you reviewing your approach to the oat question, and if you have found an answer, can you do that by regulation?

Mr. BJERKE. At this point, we are not expecting any change in the 1990 farm bill except that which has already been announced and that being the separation of oats and barley bases.

There is no effort on our part that I am aware of to realign target price of any commodity until the light of the 1990 farm bill.

Mr. SMITH. But you do have the authority, should you determine to do so, to rearrange the question of malting barley versus feed barley in the direction you take with respect to target?

Mr. BJERKE. I am not sure that we do, sir, have the authority to adjust target prices after we have announced the program situation for 1990. I do not believe we have the authority to go back and readjust target prices. I do not believe it is discretionary.

Mr. SMITH. I would like to formally ask you to review that for me and let me know.

And, Mr. Chairman, it just seems that your point is made and I guess mine. We are not going to do anything until the 1990 farm bill. We are going to miss another season going on with these inequities. I think that is too bad.

Mr. JOHNSON. Thank you. We are just about to commence a markup in the next room. I know that Mr. Stallings has a couple of brief questions and we will recess immediately after Mr. Stallings' questions and then reconvene and pick this up again.

Mr. STALLINGS. It is more of a statement than a question. I do not think any place in the Nation demonstrated as much problem in this difference between feed barley and malting barley as the State of Idaho. Because of the drought, our irrigated crops moved Idaho barley into the No. 1 production role in the Nation. The price of malting barley went through the ceiling. I mean the price was as high as it has been in a number of years. At the same time, feed barley dropped, and so I had a number of farmers who really felt that they were dealt with unfairly by the Government. The whole deficiency payment was so askew that it really did not provide them any relief at all.

It seems to me that is the purpose of those Government programs, to provide a safety net, if you please, and all of a sudden the numbers from the malting barley being figured into the equation drove that price right out of sight.

I think it is imperative we figure out a way to separate those two. You mentioned earlier that we do have a number of crops, different types of wheats and cottons in which there is a variation, but none of them have the variation between what we were getting for malting barley and what we were getting for feed barley.

If we are talking about 10 or 15 cents that would be one thing, but in some instances it is well over $1 and in some instances more than that.

The price was skewed and I think that rather than saying that we are not going to do anything, perhaps we ought to figure out some way to provide some equity to this system. I think we are going to do more to distort what we are growing in this country than try to resolve it.

I would certainly encourage you to help us try to come up with a system that would be workable and equitable.

I have no intention of raiding the Treasury to come up with another very costly program. We cannot do that and I would be the last to suggest it, but I do think we need to show some equity in the system. There is a very obvious difference between the two crops and I think you have to recognize that, and help us work our way through this problem, or it is going to get worse.

I see the 1990 crop year already beginning with more contracts having been let in Idaho. We have a new brewery which is being built in that area and they are taking several thousand acres more into malting. Now, that is great for the malt growers, but the regular barley people see their future as getting very, very grim.

Thank you, Mr. Chairman.

Mr. JOHNSON. Well, thank you and I want to thank this panel for your assistance and your cooperation here this morning.

We do have this markup next door and we are going to take care of earthquakes in California among other things and we will be coming back very, very quickly to pick up the remainder of this hearing.

Thank you.

[Recess taken.]

Mr. GLICKMAN. The hearing will resume.

I think we finished with Mr. Bjerke and if I am not incorrect, we will start with Mr. Bollingberg, member of the board of directors of the American Oat Association.

Let us go ahead and start with Mr. Bollingberg and then after you are finished, we will go ahead with the panel who are here. And I think I will ask Dr. Abel to end the panel because he has a slightly different category than the rest of the folks are. The rest of you are involved more directly with the production side.

So, Mr. Bollingberg, thank you very much for coming and we will commence with you.

I would say again to all the witnesses on the panel, please do not feel that you need to reread everything that is on your statement. We will submit it in the record.

So, why do you not go ahead and begin.

STATEMENT OF JOHN BOLLINGBERG, MEMBER, BOARD OF DIRECTORS, AMERICAN OAT ASSOCIATION, ACCOMPANIED BY PAT HENDERSON, EXECUTIVE DIRECTOR

Mr. BOLLINGBERG. Thank you, Mr. Chairman and members of the committee. I want to thank you for this opportunity to appear before you today to discuss the American Oat Association's recom-

mendations for the 1990 farm bill, particularly the target price realignment.

My remarks are condensed from the American Oat Association's extended testimony that I have submitted for the hearing record.

I am John Bollingberg and accompanying me today is Pat Henderson, the executive director of the American Oat Association.

I am an oat producer from Bremen, North Dakota and a member of the board of directors of the American Oat Association. I produce oats along with small grains, edible beans, and livestock on my farm.

The American Oat Association is a national commodity organization representing the entire oat industry from producer through processors. The membership includes producers, seed dealers, elevator managers, researchers, academics, and oat millers and processors.

There are many concerns to address in realignment of target prices to meet the needs of the American consumer and agricultural producer. The present target price relationship between commodities simply discourages oat production.

As Congress struggles with the target price issue, members must keep in mind there is a clear problem with oats as evidenced by the large import numbers of oats.

With the agricultural productive capacity of this Nation, it is absolutely ludicrous to have imported over 60 million bushels of oats in the 1988–89 marketing year.

The present target price relationship between commodities has caused oats to be the base of first choice to be retired for the Conservation Reserve Program simply because oats offers clearly the least dollar impact to the producer.

More oat base going into the Conservation Reserve Program has been part of the dramatic fall in seeded oat acres. To change this, we must offer more than an opportunity to grow oats. The target price offers protection to producers when conditions beyond their control impact their crop.

Consequently, it is imperative that the target price for oats be fairly set relative to the crops that are considered for planting on the same acres.

Congress can use any number of alternatives in determining the target price, including the economic cost of production.

Whatever the method is used to determine the target price, we must overcome the perception of oats as simply a feed grain.

In the consideration of the value of oats relative to other similar crops, the demand for food quality oats for human consumption is very important.

In the past 3-marketing years, the food quality oat demand has grown from 64 million bushels to 90 million bushels so that in the past marketing year food quality oats was 30 percent of the total oat disappearance. Today, projections are that it will increase to 110 million bushels this marketing year.

As you, the ultimate decisionmakers, wrestle with the far reaching influence of these decisions, please keep in mind, one, large imports of oats as the demand for food quality oats grows;

Two, the tremendous agricultural productive capacity of this Nation and its benefits to the Nation when properly encouraged;

Three, the health conscious consumer with every right to the quality production that can be developed domestically;

Four, that a fairly set target price for oats can stimulate production to satisfy domestic needs.

Thank you again, Mr. Chairman and members of the committee, for this opportunity to discuss the target price realignment relative to oats.

If you have any questions I will do my best to answer or find the answer for you.

[The prepared statement of Mr. Bollingberg appears at the conclusion of the hearing.]

Mr. GLICKMAN. I want to thank you for your excellent testimony and I also want to thank you for the charts at the back of your testimony and I would recommend them to anybody who wants to look at a most unusual pattern of production and consumption of a commodity.

So as a consumer of Cheerios and other oat products, I applaud your statement and we are going to see if we can—what we can to try to deal with this problem.

Our next witness is Mr. Stephen Naught, executive vice president, National Association of Barley Producers.

STATEMENT OF STEPHEN P. NAUGHT, VICE PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION

Mr. NAUGHT. Thank you, Mr. Chairman, Mr. Stallings.

My name is Stephen Naught. I am a grower from the State of Washington and vice president of the National Barley Growers Association.

I will not read my testimony. I would just like to make a few general comments. I would like to talk first about deficiency payment and why we feel that that calculation is not right.

The 1985 bill said that we were supposed to have "fair and reasonable" setting of the target prices relative to corn.

The Department did decide to use feed values. They decided to use energy feed values and there is a big distinction there, of using barley with that.

When they calculated them down through, they found it was so low that then Secretary Lyng said that they were too low. So he actually raised the target price for barley, but they were going to work down to the energy values of that.

We feel that that is unfair because they were using older charts of what our feed value is. If you take the total nutritional value of barley, then we feel that we can compare quite well with other feed grains. That is what the market price is looking at and we feel that they should be looking at the total nutritional value when determining that.

Mr. GLICKMAN. If I may stop here for a moment, I tried to pin the ASCS witness down on the question on what data he was looking at and the implication to me was he was not using charts and there was kind of a rolling average that changed year to year.

Is that not your understanding how they compute the target price for barley?

Mr. NAUGHT. I agree with that. Like I say, they did make the statement——

Mr. GLICKMAN. You agree with what, with me or with him?

Mr. NAUGHT. With you.

Mr. GLICKMAN. OK.

Mr. NAUGHT. And the reason—they would have used the energy values if they could have, but Secretary Lyng did raise it to an arbitrary number, just raised it up. So they are right and wrong and that is what they said they want to get to is the energy values and we disagree with that. It should be the total nutritional value of those feed grains.

Then to make things worse, when they calculated the deficiency price, since they were using energy value of feed, then when the calculated deficiency prices they threw all of a sudden this malt national average price in on top of it. It was not even in the consideration on one side of the equation for the target price evaluation and then they threw in the malting variety.

Quite a few things upset us about this on the malting. We view barley as barley and we make no distinction between malting barley and feed barley.

We do not ask for a division between malting barley and feed barley. All barley grown is barley until it makes a specific quantity to be able to go as malting barley.

So it was unfair that this was even thrown into the equation, it should not have been there. We are the only commodity to have to pay back our entire advanced deficiency payment in 1988 crop. We have to pay back all 30.4 cents. If you take out the malting barley prices in that, we would have to pay 8 cents back, which would be the same as corn.

The other part that I would like to talk about is that we have heard a lot about the malting barley growers getting a windfall profit. Three things there. Out in the West where I am from, the malting barley is under the contract. The majority of it is under irrigation. Those growers are not even in the program. They are not even participating in that program. Those in the Midwest that are in the malting barley area are growing malting barley varieties, but necessarily planning on going into malting barley.

A lot of times they lower their protein or their nitrogen on their ground to get to that protein level, lower level so, therefore, they are actually losing yield on that.

Another issue is, of course, cost to Government. We feel H.R. 2565 will go a long way of getting these commodities realigned and we would see shifts of growers going into barley and oats and coming out of some of the higher paying crops that are being grown for the deficiency payment only.

As far as the 1990 Farm Security Act, we would definitely request that we write it as if GATT is going to fail. If GATT does become a reality, then let us rewrite it, but we see no movement on the EC. On the barley side this year they raised their barley reconstitution 12 percent and it really bothers us. We would like to see it be market oriented.

And another thing that we would like is to see barley have its own specific section within the feed grain program. We want to stay within the Feed Grains Program because we are a feed grain,

but we would like to see our target prices, our marketing loans, everything be related to our crop.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Naught appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you very much.

Since you mentioned that Dr. Abel did the study for you, why do we not go ahead, Martin, and testify now because it probably relates more to Mr. Naught.

STATEMENT OF MARTIN E. ABEL, PRESIDENT, ABEL, DAFT & EARLY

Mr. ABEL. Thank you, Mr. Chairman.

I am not going to review the relationship between target prices and cost of production since that is well understood and does not need to be gone over here.

I would like to make a point, though, about the concept. We have both deficiency payments and loan rates. Deficiency payments, which are based on target prices, were introduced in policy as a way to provide income protection to producers while at the same time allowing market prices and loan rates to be at some lower and presumably more competitive level.

I believe it was the intent of Congress that the concept of target prices and deficiency payments should be equitable among the various commodities that are eligible to receive such payments. Now if we are talking about equity, and particularly in a feed grain such as barley, I do not see that the target price has anything to do with relative feeding value. If we are talking about income equity, that does bear some relationship to relative cost of production.

So that at least in my thinking, I do not see where the concept of relative feeding values comes in to the target price question. Where it does come in and where it has been used for many years is in setting the loan rate because the loan rate does correspond most times to a concept of market prices and there you do not want prices among the feed grains distorted on a relative feeding value basis. It makes sense to have barley and corn and sorghum and all the feed grains competing on an equal footing for the feed market.

So that would be one point that I would like to emphasize, that the target price is an income equity concept in my mind, at least, and I do not see the linkage there to determining——

Mr. GLICKMAN. And in so far as barley is concerned, you do not see the target price being set on an income-related basis then?

Mr. ABEL. Well, it is not now.

Mr. GLICKMAN. It is not now?

Mr. ABEL. Because as our study showed and as other work shows, if we look at the relationship between target prices for the various commodities and the most recent cost of production, we find that in the case of corn, sorghum, and rice that the target prices are 26, 21, and 32 percent respectively above cost of production. They are about equal for wheat and cotton and in the case of barley and oats, the target price is 13 and 40 percent, respectively, below the cost of production. That is the distortion problem.

Mr. GLICKMAN. That is quite a distortion.

Mr. ABEL. It is. It is.

Mr. GLICKMAN. No question about it.

Mr. ABEL. And I will finish now, but I just wanted to make the point that whereas feeding value is a very legitimate concept for the loan rate, I do not see that it is necessarily a relevant concept in terms of income protection.

[The prepared statement of Mr. Abel appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you very much.

Mr. Jim Broten, vice chairman of North Dakota Barley Council, a pleasure to have you here.

STATEMENT OF JAMES O. BROTEN, VICE CHAIRMAN, NORTH DAKOTA BARLEY COUNCIL

Mr. BROTEN. Mr. Chairman, members of the committee. I do present my written testimony to address to you the questions.

We in North Dakota have kind of a unique situation that about 85 percent of our barley is seeded as a malting type variety and approximately 35 to 45 percent is only sold as a malting variety.

Because of this, we are quite adamant that we keep all barley as barley. In the last 10 years, the average price for malting barley has averaged about 31 cents a bushel above feed barley. The last 2 years has been inordinately high.

We feel this will change again when the supply changes. It is changing right now. Out in the marketplace there is still a very high value on malting barley, but the price to achieve that is being graded below No. 1 malting. So the farmers are not getting that price.

What we feel in determining our target prices that all malting barley is considered at its price at the malting point where the feed barley is considered by just a sampling of the elevators. And because of this, we are getting a very high share rating of the malting barley price versus the feed barley price. So the current method of sampling gives a high favoring of price to the malting barley and we feel we are quite unfairly affected in that area. That is one point that we want to bring up.

Another point that we would like to bring up and mention is in the bases as far as going with a flexible base, if these inequities are not changed on the target and loan prices, if we go to a flexible base you will get a movement from one commodity to the other commodity just for the Government assurance of the pricing of the crop.

If there are any questions, I would be glad to entertain them at this time. Otherwise, I will be through with my testimony.

[The prepared statement of Mr. Broten appears at the conclusion of the hearing.]

Mr. GLICKMAN. Thank you very much.

Our last witness today is Mr. Tom Iverson, past president of the Idaho Grain Producers Association in the great State of Idaho that our colleague, Mr. Stallings, comes from.

STATEMENT OF THOMAS M. IVERSON, PAST PRESIDENT, IDAHO GRAIN PRODUCERS ASSOCIATION

Mr. IVERSON. Thank you Mr. Chairman and members of the subcommittee.

My name is Tom Iverson. I am from Bonners Ferry, Idaho. I am here today representing the Idaho Grain Producers Association and the barley producing States in the West.

I am a barley producer and it is a pleasure to be here and talk about some of the inequities that we feel we have been dealt in the 1985 Food Security Act.

As mentioned earlier, of course, we are mostly concerned about the target price and deficiency payment calculations. As has been stated, we see the inequity if the target price is determined based on whether USDA considers relative feed value compared to corn.

I would suggest that some discussion on the feeding charts as to how much they are used by USDA and I think as Mr. Naught had pointed out is that in fact the figures are a little bit higher than that on our target price establishment, but those feeding charts, I am convinced, are their baseline from which they start from.

Of course, the problem is that when they figure deficiency payment on the other end of the equation that they include the malt barley prices, which are not included in the original target price determination.

So we maintain that if target prices are going to be based on feed value relative to corn, then to be consistent the deficiency calculation should be based on feed barley prices also.

Malt barley prices should not be included in the deficiency payment calculation because they are not considered in the target price.

H.R. 2565 would exclude malt barley prices in deficiency payments calculations in the 1989 Barley Program. Including malt barley prices in deficiency payment calculations is especially unjust to the feed barley producers.

In the States of Oregon, Washington, Montana, and Idaho, over 65 percent of the varieties produced are feed barley varieties and a feed barley variety, of course, cannot be sold for malt.

So the vast majority of the growers in the West will never receive a malt barley premium because they do not produce malt varieties.

Thirty-five percent of our varieties are malting varieties, although only 25 percent of those actually make the malt grade. So, in essence, 75 percent of the barley grown in the western States is feed barley.

So I guess the argument like Mr. Naught had pointed out is that, yes, 25 percent of the barley growers in the West received a fairly good price for their malt barley in 1988, but we do not feel it is fair and reasonable to penalize the other 75 percent who grow feed barley for which they got well below the target price.

I think a lot of our problems are exemplified in that the barley program sign-up numbers are considerably lower than other commodities because of this inequity.

For example, in 1989, only 50 percent of the total barley base in Idaho was signed up for the feed grains program. Irrigated barley

growers with malt barley contracts left the Farm Program because it offered very little income protection.

Yet those irrigated malt barley growers who are out of the Farm Program still influence our deficiency payment for those who are in the program.

Nationally only 68 percent of the affected barley base was enrolled in the Farm Program in 1989. Compare this to the affected enrolled base of corn at 81 percent, cotton at 89 percent, and the rice program at 94 percent participation.

The enrollment figures are higher for these commodities simply because the Farm Program offers those growers greater income protection.

In 1989, barley farmers will again be faced with repaying a portion of our advanced deficiency payment received for signing up for the 1989 Feed Grains Program.

Malt barley prices will again exceed barley prices by approximately 80 cents per bushel. The all barley priced during a 5-month marketing period used to calculate the 1989 barley deficiency payment will be about $2.40 a bushel, only 3 cents less than the 1989 target price for barley of $2.43.

Feed barley growers who are earning an average of 27 cents a bushel less than they did last year will again be asked to repay a portion of their 1989 advanced deficiency payment.

Nationally barley growers will pay approximately $27 million to USDA for 1989 unless H.R. 2565 is implemented to correct this inequity.

Barley growers also feel that USDA is grossly understating the true feeding value relationship between corn and barley. I think we have argued this some, but I would also suggest that the USDA feeding charts indicate that barley is 81 percent energy value of corn. The National Research Council recently did a study which indicates that it is much higher than that or basically equal in ruminant animals.

Well, the 90 percent of the barley fed in this country is consumed by beef, dairy, and sheep all ruminant animals. Barley actually exceeds the feed value of other grains in all livestock classes when the total nutritive profile is considered.

Barley contains 2 to 5 percent more protein than other grains and has a favorable amino acid balance. If USDA is to continue to determine target price based on relative feed value between grains, they should be required to include the entire nutritive qualities of each grain, not just feed energy values.

In H.R. 2565, the target price for barley in 1990 would move to a national average cost of producing a bushel of barley plus 10 percent for management and family labor. The current target price formula allows some commodities to receive well above their average cost of production, while other commodities, like barley and oats, suffer with a target price well below the cost of production.

[The prepared statement of Mr. Iverson appears at the conclusion of the hearing.]

Mr. GLICKMAN. Mr. Iverson, let me stop you because we have your statement in there and I wanted to make sure we have time for questions here. We are going to expect a vote pretty soon.

Is it your position that we should pass the bill now to set the relationships better, to raise the target prices, or else to preclude the repayment of advanced deficiency payments?

I mean what is it exactly that you think that we ought to do right now, realizing it is going to be very difficult to pass the bill right now?

When we are talking about relations between target prices, that is probably going to be something that is going to be just the heart of the 1990 farm bill.

If you had your druthers, what would you like, and if you did not have your druthers, what would you suggest in the long term?

Mr. IVERSON. Well, I think the 1988 advanced deficiency rate payment is going to happen. I think that is history and that is going to be $94 million now they are talking about.

For 1988 and 1989, the 1990 farm bill is a long ways away. That is the 1991 crop. I do not think we can wait that long. I think something has to happen right away.

I think H.R. 2565, again we do know whether that could pass or not, is a move in the right direction and that idea being that to truly correct the problem is that we need to correct the way the whole system is working. But for the short term if we could eliminate the barley price, which we think is weighted too heavy in the whole calculation as skewing things, that would be a short term solution and then maybe going to cost of production.

Mr. GLICKMAN. Now let me ask you as well as the others here who care to respond, if you exclude the higher priced malting barley from the deficiency payment calculation, then does it seem feasible or fair to include the food value of malting barley in the target price?

That is I am just curious as to why this position is taken. Can anybody respond to this?

Mr. NAUGHT. I will take a shot at it. I think it is pretty hard to figure out the food value of its relation to corn and a few of those other things.

So I think we would say just to make it easier to stay with the feed side of it and that is why in the 1990 farm bill we definitely would like to see cost of production and we would like to see H.R. 2565 passed. I think the reason for that is, is we cannot wait 2 years. We have already had 3 years of very bad inequities in this, and also, it would be a good way to start a trial balloon to see if we are on the right road for 1990 instead of passing it in the 1990 Food Security Act and finding out we have another problem. It is a good trial balloon.

Mr. GLICKMAN. To talk about the food or feeding values in calculating what a target price ought to be, it is really a tenuous way to describe it and I mean it just confounds me why we have done that. It does not seem to make any sense because I have always thought historically target prices were to relate reasonably to cost of production. Then you can argue about what goes into that component, but that is probably what we ought to do.

Mr. IVERSON. Mr. Chairman, I might make the statement on cost production is that we have all examined the figures that USDA uses for cost production, at least for barley, and feel really quite comfortable that they are realistic figures and contrary to what I

think was implied earlier today that cost of production figures are here or there or all over the board.

On barley we have examined those, I think speaking for Stephen and Jim and the other barley States, and we feel quite comfortable with the figures they have.

Mr. GLICKMAN. Let me ask Mr. Bollingberg, on the question of oats, in H.R. 1245, a provision requires the Secretary to give oats a $2.52 target price for the 1990 year. Why $2.52? Is that the cost of production?

Mr. BOLLINGBERG. Well, I have just glanced at this and I do not have any—this would be an off the cuff shot from the hip as far as making a comment on it.

It is my understanding that I do not think I would quarrel with the economic costs. I am assuming, and I have to assume on some of these things because I do not know—are we looking at Mr. Abel's——

Mr. GLICKMAN. It must be. He has got—I just noticed now, he has $2.52. Well, then it is a cost of production estimate then is what it is.

Mr. BOLLINGBERG. And then I think they take an average bushel production and put it into the acre and develop the cost that way and the numbers I have seen would not have come up this way. So I do not know what the background is and until I would find out what the background is—but the numbers that I would see would have been closer on the cost of production between barley and oats.

Mr. GLICKMAN. Martin, how did we ever set, just curiously, the corn target price so much differently—corn and sorghum both than the production costs? Where did that happen? I am sure that we did it up here and was probably done from this very seat I sit in right now, but why did we do that? [Laughter.]

Mr. ABEL. Well, the one thing I think I am sure is it was not done intentionally. It just happened to emerge and I think if one goes back and looks at relationships in the early 1980's, there was a closer relationship between the cost of production and the target prices that existed in the early 1980's and that just had a carryover effect into the 1985 act.

But over the last 4 or 5 years and maybe a little longer, for a variety of reasons there have been rather dramatic shifts in cost of production and there are some graphs in our study that indicate that.

Now the other thing that compounded this and, Mr. Chairman, you very well remember, prior to the 1985 act, target price exposure was pretty low for most crops. In other words, the target price was just a little bit above the loan rate. It was not above the loan by a huge amount, but as we moved into the Food Security Act and the way the Food Security Act was implemented, we lowered loan rates very sharply relative to target prices and that actually aggravated the disparity problem because in the case of oats we started out with a low target price to begin with and then when we dropped the loan rate on corn very sharply——

Mr. GLICKMAN. This is a classic problem that we are facing now in the Medicare system where we have some doctors that may be compensated better than other doctors and we have to equalize those means of compensation and if you are an internist or family

practitioner, you fare very well, but if you are a surgeon or a radiologist, you are in deep trouble, but for budget reasons we are being forced to do that and it looks to me like at some point we may be forced to do it here as well.

It also has profound implications on policy as well. But we do not have to deal with that today. It is just a real——

Mr. NAUGHT. I just might add, we were using cost of production up to 1977 and then we went away from cost of production.

Mr. GLICKMAN. In barley, or are you talking about everywhere?

Mr. NAUGHT. Everywhere.

Mr. GLICKMAN. Yes.

Mr. NAUGHT. Then Congress did set the target price for corn at $2.70 and then they used the words "fair and reasonable" for other feed grains.

Mr. GLICKMAN. Yes. So it did happen out of my seat then is what you are saying. [Laughter.]

Mr. NAUGHT. Yes. The fair and reasonable got changed.

Mr. GLICKMAN. That got changed downtown though, not with us.

Mr. NAUGHT. That is correct, but Congress—you picked the $2.70, I do not know where.

Mr. GLICKMAN. Mr. Stallings.

Mr. STALLINGS. Thank you, Mr. Chairman.

Again, I appreciate the testimony of these gentlemen. I have worked with them for some time in trying to bring about some fairness into this system.

Mr. Iverson, was this basically an Idaho problem, these last couple of years with the requirement that we pay back the deficiency payments or was that industrywide?

Mr. IVERSON. Well, the repayment was industry wide. I mean I think the impact that we feel in Idaho is from 1988. We are looking at probably $10 million that will have to be repaid by the barley growers and that is our State alone.

Certainly nationwide—well, we suggest—we ran some figures and we have to pay back all of our deficiency at 30 cents, 30.2 or 30.4 cents. We suggest that if they recalculate and throughout the malt price for 1988 and just use feed price we would then have to pay back 8 cents, which is the same as corn has to pay back. We felt that was equitable.

At 8 cents, it would be a price of about $40 million or $50 million nationwide the barley growers would have to repay. Because that has not been changed, now we are looking at a price tag of around—the last figures we got yesterday were around $94 million that the barley producers will have to repay to USDA from the 1988 advanced deficiencies. So it is nationwide, but certainly in Idaho, as you are well aware, we have somewhat of a problem with the irrigated areas we have and a lot of the malt production there and a lot of those growers, like I said, simply are not in the Farm Program because there is not enough incentive there for them to be in it. And, of course, when they sell their barley as malt under contract, those prices are figured into the deficiency calculation.

So even though they are not in the program, they are affecting my deficiency payment as a feed barley grower.

Mr. STALLINGS. USDA stated in their testimony the deficiency payment was not based on the feed value relative to corn alone,

but then they added an additional 12-cent premium. Where did they come up with the 12 cents? Do you have any idea of what that was supposed to do or what it was?

Mr. IVERSON. I certainly do not, Congressman. As I understand, like I said, the feeding charts I think were the baseline they used and then the Secretary has the discretion, of course, to deviate from them. My understanding was that—and I think you have seen in correspondence from Secretary Yeutter that if it was at exactly the 81 percent that they figure, which we certainly dispute that that is an accurate figure, but if they use the 81 percent the target price would have been $2.39 or something. So they jacked it up 12 cents. That was a discretionary move on the Secretary of Agriculture and where they came up with that figure, I really do not know.

Mr. STALLINGS. Did they just pull it out of the air?

Mr. IVERSON. So that makes it about 86 percent feed value of the corn. USDA charts say 81 percent feed value. Well, they have added the 12 cents. So now they are figuring it is about 86 percent. We certainly feel that with recent data now that we are comparable to corn, if they are going to use that line of approach for figuring it.

Mr. STALLINGS. Mr. Chairman, again, I appreciate you holding these hearings. I hope that we can do something to straighten out this problem. It has been a very serious concern in my district.

Mr. GLICKMAN. Well, I am glad that you pressed us on it. We will sit and talk a little bit about it. We have to figure out whether it is feasible to do anything now or whether it is something that is going to have to wait until next year when we write the bill.

I understand from a—if I were an Idaho barley producer, I would not—I mean it is an immediate problem. It is not one that necessarily can wait, but we have to figure out with our budget constraints and everything else whether it is something that is feasible to deal with in advance.

I do not want to mislead anybody. That is going to be very tough to deal with, but we will still take a look at it and we will also take a look at these issues as we design a formula for target prices in the 1990 bill as well.

So we thank you all very, very much for your testimony today.

[Whereupon, at 11:27 a.m., the hearing adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement of Keith Bjerke, Administrator
Agricultural Stabilization and Conservation Service
U.S. Department of Agriculture
before the
Committee on Agriculture
Subcommittee on Wheat, Soybeans, and Feed Grains
U.S. House of Representatives
November 9, 1989

Mr. Chairman and Members of the Subcommittee, I am happy to be with you today to discuss H.R. 2565, a bill concerning malting barley and feed barley, and H.R. 1245, a bill relating to oats.

H.R. 2565 would amend the Agricultural Act of 1949 (the 1949 Act) to require the Secretary of Agriculture to exclude the malting barley price from the national weighted market price for barley in determining the payment rate used to calculate deficiency payments for the 1989 crop of barley, and to require the Secretary to establish the target price of barley for the 1990 crop based on all feed and food uses.

H.R. 2565 would:

(1) Remove the Secretary's discretion over designating or not designating barley to receive deficiency payments.

(2) Base 1989 deficiency payments for barley on only the feed barley price, excluding the price of malting barley.

(3) Set the established price (target price) for 1990-crop barley based on all feed and nonfeed uses of barley, but at a minimum of $2.93 per bushel.

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With regard to (1)--the Secretary's discretion over designating barley to be eligible for payments, we view this change as a minor issue. Barley producers have been eligible to receive deficiency payments since 1974 and barley has been designated for such purposes each year since then. The likelihood is that barley will continue to be designated eligible for payments.

With regard to (2) and (3), raising the target price and lowering the market price for determining barley deficiency payments, we view this two-pronged change as a major issue, based on several points, not the least of which is the cost to the Government.

Let me review the proposed increase in the barley target price. Realigning target prices on a piecemeal basis is fraught with problems because of possible commodity, budget, and market effects.

We find the proposed increase in the barley target price objectionable because it is one-sided, not market oriented, and costly. Clearly, setting the minimum target price at $2.93 per bushel is arbitrary. In particular, the oats supply and demand imbalances of recent years and the relation to the oat target price are not addressed. Furthermore, increasing the incentive for barley producers to chase target prices rather than respond to market prices is contrary to the general industry support for actions that encourage producers to respond to market signals.

It is a common misconception that the barley target price has been established on a feed value relationship to the target price for corn. The 1989 barley target price was $2.43 per bushel, about 86 percent of the corn target price, but 100 percent of the feed value of corn on a pound for pound basis. A 1989 corn target of $2.84 per bushel divided by 56 pounds per bushel gives a per pound price of $0.0507. At 48 pounds per bushel, the 1989 barley target per pound is $0.0506. If the 1989 barley target price had been based on a feed value relationship to corn, it would have been $2.31 per bushel, 12 cents below the announced 1989 target price. One could say that the 1989 barley target price had a 12-cent premium built in for "all barley," which covers both feed and malting barley.

Now let me turn to the proposal for excluding the malting barley price in calculating the average market price that is used in determining deficiency payments. The use of average prices is a problem that is inherent in determining deficiency payments for all program crops. When a segment of a market receives a higher price, the average price rises and the payment rate falls. In a given year, producers who receive a market price that is lower than the average don't get a bigger deficiency payment, while those who receive a higher-than-average price don't get a smaller payment. Some argue this is unfair, but no workable alternatives have been found.

This aspect of the program is not peculiar to barley. For example, higher-priced Acala cotton, high protein wheat, and long-grain rice are included in calculating the average market prices and, hence, deficiency payment rates, for Upland Cotton, "all" wheat, and "all" rice, respectively.

The combination of both excluding malting barley price in computing deficiency payments and raising the barley target price based on food and feed value would legislate an objectionable program inconsistency. That is, the bill would require the use of food value of barley in setting the target price, while simultaneously mandating the exclusion of the prices paid with respect to barley's food value in determining the average price received by farmers. The result would be an economically unjustifiable payment rate and an excessive increase in program outlays.

The likely response from Government as these results became clear would be to impose more vigorous production controls on barley to control costs. In the end, the barley industry could be made worse off.

Let's take a look at the Government's costs. The first effects would show up in fiscal year (FY) 1990 due to the change in the payment rate for 1989-90 crop barley. Mandating the use of only the feed barley price in calculating 1989-crop deficiency payments would increase FY 1990 outlays by $55 million. Also, increased advance payments from raising the target price to $2.93 per bushel for the 1990 crop would add $75 million to FY 1990 outlays, for a total increase in FY 1990 of $130 million.

H.R. 1245, aimed at increasing the incentive to produce oats, poses problems similar to those of H.R. 2565 in its attempt to realign target prices on a piecemeal basis.

H.R. 1245 would amend the 1949 Act to:

(1) Set the target price for 1990-crop oats at $2.52; and

(2) Amend section 504(b)(1) of the 1949 Act to:

Create a combined feed grain base acreage for the 1990 crop year based on the previously established bases for corn, grain sorghum, barley, oats, and rye; and

Preclude the Secretary's discretion in establishing separate bases for one or more of the different types of feed grains.

Setting the 1990 oats target price at $2.52 per bushel is a full $1.07 higher than the $1.45 rate recently announced under the 1990 Feed Grains Program. As in the case of H.R. 2565 that deals with barley, H.R. 1245 arbitrarily establishes the oats target price, is primarily one-sided in its effect, and is costly for the Government.

Under the current baseline, no deficiency payments are expected to be made for oats in FY 1990, since the farm price is expected to exceed the $1.45 target price. However, with a $2.52 target price, relatively large deficiency payments would be made for oats.

H.R. 1245 would prevent the Secretary from establishing separate bases for one or more of the different types of feed grains. Crop acreage bases (CABs) for corn and grain sorghum are currently combined for program purposes. Oats and barley now have separate bases, but had been combined prior to the 1990 Feed Grain Program announcement. The bill would thus allow farmers to plant oats in the feed grain program for the $2.52 target price on what is currently corn, sorghum, and/or barley CAB.

H.R. 1245 would also allow producers with a history of planting rye to plant oats, barley, or corn for deficiency payments. Some of this acreage would shift rye acreage to one of the other feed grains so producers could get deficiency payments. Depending on the crop produced, the increase in program costs from permitting acreage with a history of being planted to rye to be planted to oats, barley, or corn for deficiency payments would increase program costs.

Some offsets would occur due to reduced outlays for barley and corn. Payment acreage and deficiency payment rates for barley and corn would decline because of the switch in feed grain program plantings from corn and barley to oats.

As with the proposed barley changes, if the target price for oats is so attractive that oats production starts costing a lot of money, supply controls will be instituted to control the costs and those who are pushing for this legislation may end up worse off.

I might add that we have taken what we believe to be positive steps to help increase oats production. They are:

(1) splitting the combined barley/oats base under the 1990 Feed Grain Program to encourage oat plantings on acreages that otherwise would likely have been planted to barley;

(2) excluding oats from limited cross compliance restrictions beginning with the 1987 Feed Grain Program;

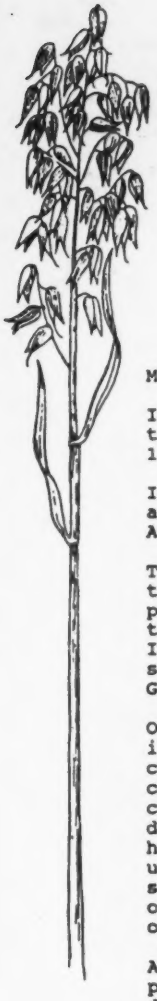
(3) keeping the oats acreage reduction percentage requirement below those of other feed grains for each of the crop years, 1988 to 1990; and

(4) permitting the temporary transfer to oats base of any part of the farm acreage base other than soybean acreage and extra-long staple cotton base.

The first two actions will enable producers to exceed their oats base and remain in the program for other program crops. If producers do plant beyond their oats base, however, they will have to forego program benefits on oats only. Prior to our recent action to split barley and oats bases, if a producer planted beyond his barley/oats permitted, he no longer would be in compliance with the barley program. This, in our opinion, was a major disincentive and obstacle to the planting of more oats. Splitting the barley and oats bases will, in our opinion, result in greater production of oats since producers who overplant their oats bases no longer will be in jeopardy of losing their barley deficiency payments.

I would summarize by saying that selectively increasing target prices, without regard to other crop target prices, in an attempt to increase plantings of a specific crop can lead to detrimental effects for producers and consumers of other program crops and lead to expanded Federal outlays. The Department's position is that any target price changes should take place in the full light of the 1990 farm bill debate so that all affected and potentially affected parties can have an input.

Mr. Chairman, this concludes my testimony and I will be happy to respond to questions.



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STATEMENT OF JOHN BOLLINGBERG
AMERICAN OAT ASSOCIATION

BEFORE THE
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON WHEAT, SOYBEANS, AND
FEED GRAINS
U.S. HOUSE OF REPRESENTATIVES
NOVEMBER 9, 1989

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you this afternoon to discuss the American Oat Association's recommendations for the 1990 farm bill.

I am John Bollingberg, an oat producer from Bremen, North Dakota and a member of the Board of Directors of the American Oat Association (AOA).

The AOA was formed last November to represent the interests of the entire domestic oats industry -- from producers to processors. We represent oat farmers and seed companies from all the major oat producing states, including North and South Dakota, Iowa, Minnesota, Wisconsin and Nebraska. We also represent several major oat millers and processors, such as Quaker Oats, General Mills and ConAgra.

Over the past year, there has been a tremendous explosion of interest in oats based on research findings that oat bran, when combined with a low-fat, low-cholesterol diet, can actually lower cholesterol levels. As a result of this research, health-conscious American consumers have dramatically boosted their demand for oat-based products. The amount of oats used for food has risen steadily during the early 1980s and turned sharply upward in the two years. We expect this demand to continue to strengthen in the future as more and more consumers become aware of the link between diet and health and the nutritional benefits of eating oats.

Although consumer demand for oats is at an all-time high, U.S. production of oats has remained at a level insufficient to meet domestic demand. This production shortfall has forced the United States into large-scale imports of foreign oats to augment domestic supplies, making oats the only major grain imported in any quantity into the United States today.

The United States became a net importer of oats in 1982 and oat imports have risen steadily since that time. Oat imports accounted for less than 1 percent of production in 1982, but rose to approximately 28 percent of production last year when the United States imported 60 million bushels. While imports of this magnitude were due in some part to last summer's drought, the greater part of this shortfall was a direct result of years of production declines. Indeed, even before the drought, U.S. oat production in 1988 was expected to hit a 100-year low.

U.S. oat production is expected to rebound slightly this year due to an important flexible planting provision for 1989 crop oats, but imports are still expected to reach 40 million bushels.

The continued domestic shortfall of oats is of major concern to the AOA. We are extremely concerned about the growing reliance on foreign sources of a basic grain such as oats. We find that many of these imported oats are inferior to domestically produced oats, especially in terms of protein. And we strongly believe that American, rather than foreign, producers should be the major beneficiaries of the growing consumer demand for oats.

Why the shortage of oats? The answer lies largely with current farm programs and the way they are implemented. Although the Food Security Act of 1985 has been successful in making U.S. agriculture more competitive in world markets, in bringing supply and demand more into balance for most major commodities, and in reducing the budgetary cost of these programs, it has not benefited all commodities equally. This is especially true in the case of oats.

The problem is threefold:

1) Both the 1981 and 1985 farm acts, and the Department of Agriculture's implementation of the feed grains program authorized under those laws, set oat target prices too low relative to other competing crops to provide sufficient price protection and incentives for farmers to grow oats. In fact, the oats target price level is so low as to be non-functional and, when compared to the Federal returns on competing crops, actually provides a disincentive to grow oats. Simply put, farmers make more money -- from the market and the Government -- when they grow corn, wheat, sorghum or barley instead of oats. And even in those instances when the oats market price is extremely strong, as it was last summer, oats become noncompetitive with these more highly supported commodities when Federal payments are factored in.

2) The problem of inequitable target prices is compounded under the current inflexible base acreage program that, in effect, locks farmers into growing the more highly supported commodities year after year, regardless of current market conditions. Prior to the flexible planting provisions for 1989 soybeans and oats, higher target prices for competing grains and farmers' natural desire to maintain maximum eligibility for those federal payments

prevented them from responding to strong soybean and oats prices. Very few farmers were willing to sacrifice their future years' wheat or corn base with its guaranteed high Federal payment for one year of high oat or soybean prices. Moreover, given the limited value of the oats base, some oats acreage shifted into soybeans in 1987/88, creating even more pressure on oat supplies.

In theory, farmers have a bit more flexibility with regard to oats and barley. These commodities have a "combined" base which allows producers to switch freely from barley to oats (and from oats to barley) without sacrificing acreage base. In reality, however, farmers plant barley because barley's target prices have historically been between 96 cents and $1.00 higher than those for oats.

3) The Conservation Reserve Program (CRP), designed to remove up to 45 million acres of highly erodible cropland from production by 1990, also has had a significant adverse effect on oats production. Oats, because they have a lower return per acre than other crops, have been relegated to the least productive acres of the farmstead, the same acres that are likely to be the first candidates for entry into the CRP.

The disproportionate amount of oats acreage moving into the conservation reserve is ironic in light of the many positive environmental benefits of growing oats.

Oats are an excellent soil erosion control crop. Unlike row crops that leave a significant portion of soil exposed to wind and water erosion, the dense cover provided by oats actually protects the soil. In certain crop rotations, oats also require minimum tillage (plowing) which helps prevent erosion -- the less a farmer has to plow up or disturb the soil, the less prone that soil is to erosion.

Oats' special properties also make them an excellent rotation crop. Not only does crop rotation in general help lessen the need for chemical fertilizer application by preserving soil fertility, oats require less nitrogen from the soil (or a minimum amount of fertilizer) when compared to many other crops.

Oats are also often used as a "natural herbicide" -- grown as a companion (or starter) crop to establish forage crops and to shade areas where weeds would grow.

All these properties make oats an environmentally-sound crop, yet oats production is being unintentionally and inappropriately restricted through the conservation reserve.

These three program provisions -- inequitable target price levels, an inflexible base acreage program and the CRP -- have prevented U.S. farmers from responding to the growing demand for high quality oats. Instead of production increases stimulated by strong oat prices, U.S. oats production remains flat or depressed.

But U.S. agriculture does not exist in a vacuum. As I noted at the outset, high U.S. prices have stimulated foreign production -- for example, Canadian oat acreage is up 15 percent this year over last year's level. This trend can be expected to continue in the absence of increased oat production at home.

Recognizing this, Congress has taken a number of important steps over the last few years to address the problem of insufficient production incentives for oats:

Pressure from several members of this Committee resulted in the Department of Agriculture's lifting of cross-compliance requirements for oat producers in the 1988 and 1989 feed grains programs, providing farmers in other commodity programs with additional flexibility to plant oats.

The Omnibus Budget Reconciliation Act of 1987 directed the Secretary of Agriculture to establish a reduced acreage program of no more than 5 percent for the 1988-90 crop oats to encourage additional plantings. With the barley ARP maintained at 20 percent, the 5 percent oats ARP was intended to allow the market price for oats to compete with the higher target price for barley. Unfortunately, although we did see a slight shift from barley to oats in 1988, both barley and oats acreage fell as farmers instead opted for the conservation reserve or planted soybeans. Moreover, the 5 percent oats ARP advantage was dramatically reduced in 1989 when the barley ARP was set at 10 percent.

Finally, and perhaps most importantly, the 1988 drought assistance package provided needed planting flexibility for oat producers. This oats program allows farmers to plant any portion of their farm acreage base to oats in 1989 and 1990 (except that designated to soybeans) if the feed grain acreage reduction program requirement is 12.5 percent or less of the crop acreage base. This amendment guarantees that additional oats plantings will not alter a farm's existing acreage base for future crop years and should provide wheat, corn and sorghum producers with increased flexibility to plant oats in response to anticipated strong oat prices.

These program changes, while important, were necessarily limited in their scope and effect by their piecemeal nature. However, the problem in oats cannot realistically be solved without a comprehensive examination of the interrelationships among all the competing program crops. Thus, the upcoming omnibus farm bill offers the best opportunity in years to address the severe problems facing the U.S. oats industry.

Resolving the shortfall of high-quality U.S. oats will be difficult. AOA remains concerned about the very real potential for increased instability in the oats sector as we attempt to bring domestic supply more in line with demand. The commodity programs crafted in the 1990 farm bill will determine if the

United States will once again become self-sufficient in oats, with a minimum amount of economic dislocation to domestic oat producers. To that end, the American Oat Association urges Congress in developing the commodity provisions of the 1990 farm bill to design programs that will:

* Provide adequate production incentives to and income protection for American oat farmers;

* Expand U.S. oat production to meet increasing demand for oat products by health-conscious American consumers; and

* Provide a stable, reliable source of high-quality U.S. oats.

To achieve these objectives, the AOA recommends the following two policy recommendations in order of priority.

Realign target prices to remove disincentives to oat production and to provide adequate income protection to oat producers.

Most United States grain production is supported through a system of target prices and deficiency payments. Farmers receive income-supplementing deficiency payments when market prices fall below a government-established target price--the per bushel price the government determines provides an adequate return to the farmer. Target prices guarantee farmers a certain price for their product and thus, reduce risk. The higher the target price, the less risk and the more production. This is an unintended consequence of a target price system--a too high target price provides a strong production incentive and often results in excess production. Conversely, a low target price provides a disincentive to production and can result in a crop shortfall.

The 1981 and 1985 farm acts provided two major disincentives to oat production. First, and foremost, target prices for competing grains---corn, wheat, and barley--were set significantly higher than the oat target price. This meant corn, wheat and barley producers incurred substantially less risk in producing these commodities compared to oats because of the more generous government -guaranteed deficiency payments. As a result, corn, wheat and barley production rose and oat production steadily declined.

Since the oat target price was first mandated by Congress in 1982, the USDA has consistently set the oat target price too low. The precise method USDA uses to determine the various feed grain targets has always been obscure. What is clear, however, is that the USDA formula does not use the same criteria in determining targets for each feed grain, resulting in significant imbalances among these competing commodities.

The target prices for competing feed grains have been set in relation to the corn target price. This requirement biases the entire feed grain program in favor of corn and is a major factor

in today's oat shortage.

In evaluating oats as a food/feed grain, it is important to keep in mind that in the past 3 marketing years, food quality oat demand has grown from 64 million bushels to 90 million bushels so that in the past marketing year, oats used in food products was 30% of the total disappearance. This is expected to increase to 110 million bushels of food quality oat demand in the current marketing year.

Increased planting flexibility to allow farmers to respond to market conditions.

Prior to 1981, program acreage was determined on a "whole farm" basis. Under the Normal Crop Acreage (NCA) program, a farmer had an overall farm acreage base, with that base determined by his 1977 plantings. The 1981 farm act authorized crop-specific, rather than whole farm, bases. For program purposes, farms were divided into individual crop bases--a corn base, a wheat base, an oat base, and so on. These bases were determined by actual previous years' plantings. For 1986 crops and beyond, acreage base was determined by averaging the farmer's previous years' plantings, dropping the high and low years for a rolling average.

By limiting the farmer's flexibility to choose among the mix of crops on his whole farm base, the new crop-specific base provided greater control over production.

However, the inflexibility of the program is also a major disadvantage, especially when combined with the unequal incentives of the current target price system.

If the market price is telling the farmer to plant more oats than wheat, he can't make the change without sacrificing or risking his wheat base. If he cuts his wheat base, he 1) reduces his future eligibility for the higher wheat deficiency payment and 2) increases his risk by betting on next year's oat market price rather than relying on a Federally guaranteed wheat price. Fear of risk motivates farmers to remain locked into maintaining their bases, farming the farm programs rather than producing for the market.

Programs must be revised to remove the rigidity that prevents farmers from responding to current market conditions. AOA strongly supports the concept of flexible planting. Under the current system of inequitable target prices, however, we can support only those proposals that are truly market-oriented--those programs that allow farmers to plant solely for the market, without the benefit of target price protection. The triple-base proposal falls into this category as does the flexible oat planting provision in effect this year.

AOA believes, however, that simple base substitution or reversion back to the Normal Crop Acreage (NCA) program would not encourage

farmers to plant for the market, at least not under the current target price system. Indeed, as our experience with the combined barley/oat base has shown, farmers naturally would tend to plant the more highly supported commodities. These programs do provide farmers with flexibility, but unfortunately it is only a flexibility to "farm the farm programs." And with continued non-functional target price protection for oats, oats acreage would dramatically decline under these latter two proposals.

Base substitution or the NCA become viable market-oriented flexible planting programs only if the current target price system is revised to provide a level playing field for all program commodities. It is then, and only then, that AOA could support either of these two options.

The inequities in target prices, combined with inflexible acreage bases, explain why U.S. oat production continues to fall in spite of increasing demand for food quality oats.

The American Oat Association contends that grain target prices should not provide an incentive to one or more commodities at the expense of another. And acreage bases must be made more flexible so that producers can respond to market signals.

A more equitable target price system, coupled with greater flexibility to respond to the market, will help the United States return to self-sufficiency in oats. Farmers want to grow oats, but they don't want to be penalized for doing so.

Oat millers and processors want the high-quality U.S. oats to meet rising consumer demand. For over 50 years, private industry has funded oat research in this country to develop an oat crop that is unequaled anywhere in the world in terms of quality.

And lastly, American consumers are demanding more oat-based products as they come to realize the nutritional and health benefits of eating oats. Farm programs must be revised to allow farmers the freedom to meet this demand.

Thank you again, Mr. Chairman and Members of the Committee, for this opportunity to discuss the oats program.

Oat production, price and import data, along with a comparison of subsidy levels among the competing grains, is attached.

(Attachment follows:)

WHEAT & FEED GRAIN PROGRAMS - 1989

	TARGET	LOAN	MAXIMUM DEFICIENCY	
			PER BUSHEL	PER ACRE
WHEAT	$4.10	$2.06	$2.04	$76.58
CORN	$2.84	$1.65	$1.19	$129.59
OATS	$1.50	$0.85	$0.65	$37.00
BARLEY	$2.43	$1.34	$1.09	$56.70
SORGHUM	$2.70	$1.57	$1.13	$69.95
SOYBEANS	$0.00	$4.53	$0.00	$0.00

*BASED ON 5 YEAR AVERAGE NATIONAL YIELDS

- Targets and loans for oats have been historically low relative to corn, sorghum, barley, and wheat
- Potential deficiency payments per acre for oats are 65% of barley, 48% of wheat, and 29% of corn based on 5 year national average yields
- The disparities in potential deficiency payments clearly indicate the disincentives that farm programs provide for oats production in the U.S.

9

CHANGE IN OATS TARGET PRICES REQUIRED TO EQUAL RETURNS FROM OTHER CROPS

1989

CORN	+	$1.62
BARLEY	+	$0.43
WHEAT	+	$0.61
SOYBEANS	+	$0.91

ASSUMPTIONS -

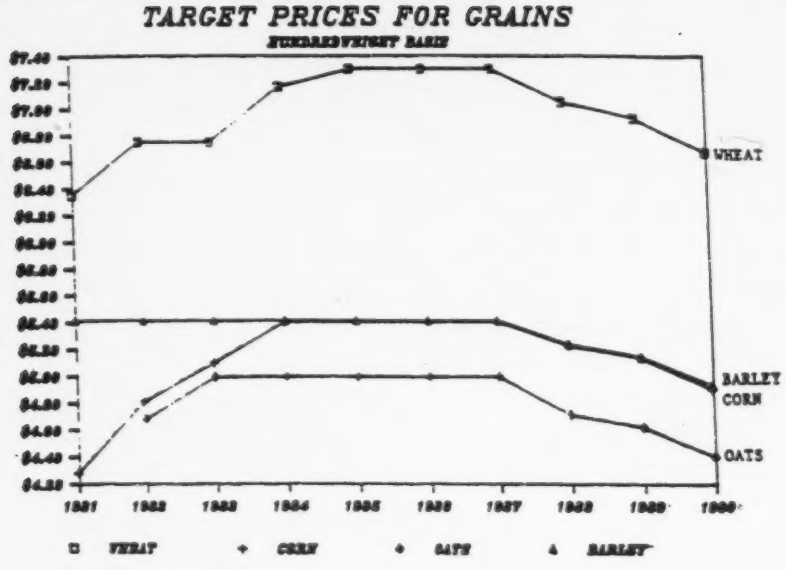
- Upper midwest (Minnesota, N. Dakota, S. Dakota, & Iowa)
- Five year average yields
- Returns over variable costs of production
- Participation in feed grain and wheat programs

CONCLUSIONS -

- For program returns for oats to equate to those for barley and wheat, oats target prices would need to be increased $0.43 and $0.61, respectively
- Competitive returns to corn would require a $1.62 increase in oats target prices
- Current loan prices for soybeans indicate a $0.91 increase to compete

July 7, 1989

10

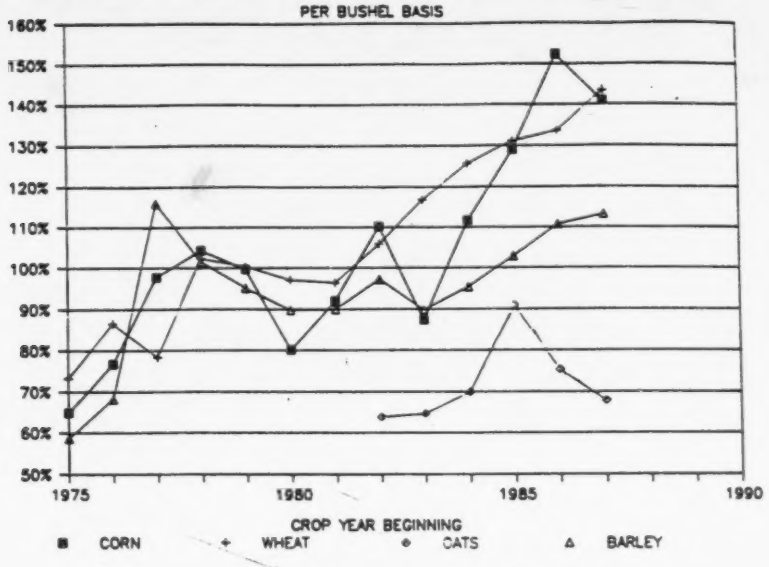


Constant weight removes the effect of varying bushel weights for the various grains.

Disparity of oats target relative to corn and barley is readily apparent on a hundredweight basis. The level for the wheat target is 46% higher than for oats.

11

TARGET PRICES AS A % OF ECONOMIC COST

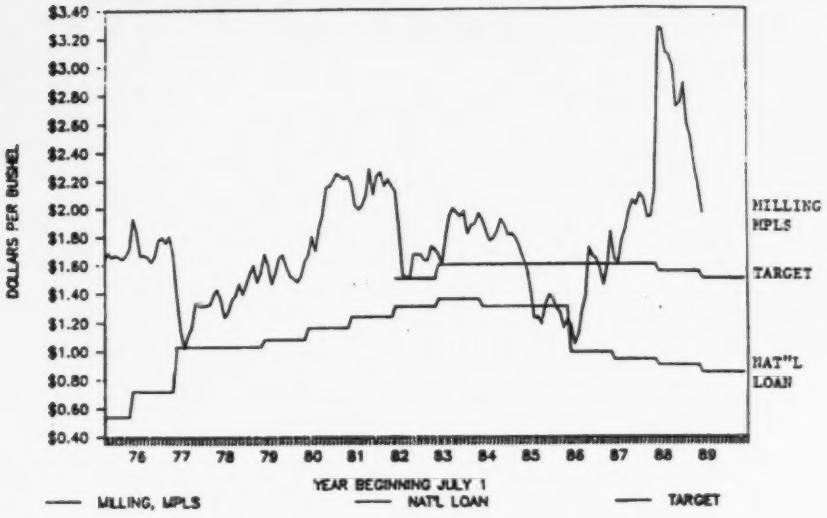


Target prices per bushel as a percent of total cost of production (including land and labor) per acre have been established at unreasonable levels in relation to barley and especially corn and wheat.

Production costs were derived from USDA's Economic Indicators of the Farm Sector--Cost of Production.

Yields were derived from USDA's final crop production report released in January 1988.

OATS – TARGET, LOAN & CASH

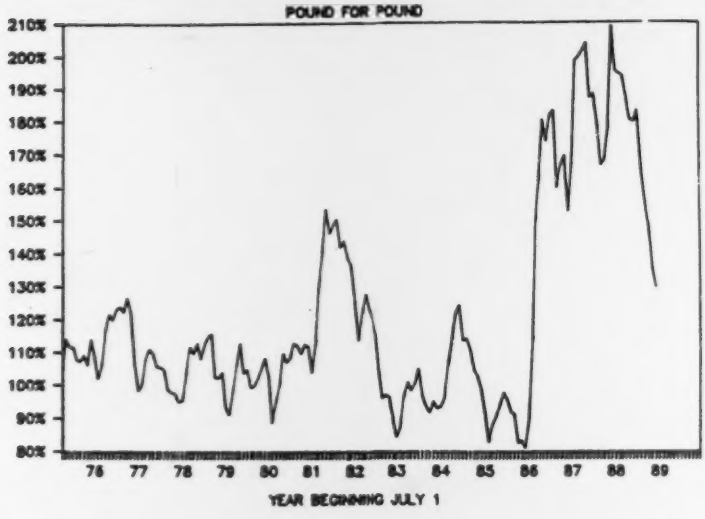


Cash prices for milling oats, Minneapolis, have seldom fallen below oats loan levels.

Since oats target prices were established in 1982, milling oats have generally maintained price levels higher than target (expect 1985/86 crop year when all grains were depressed).

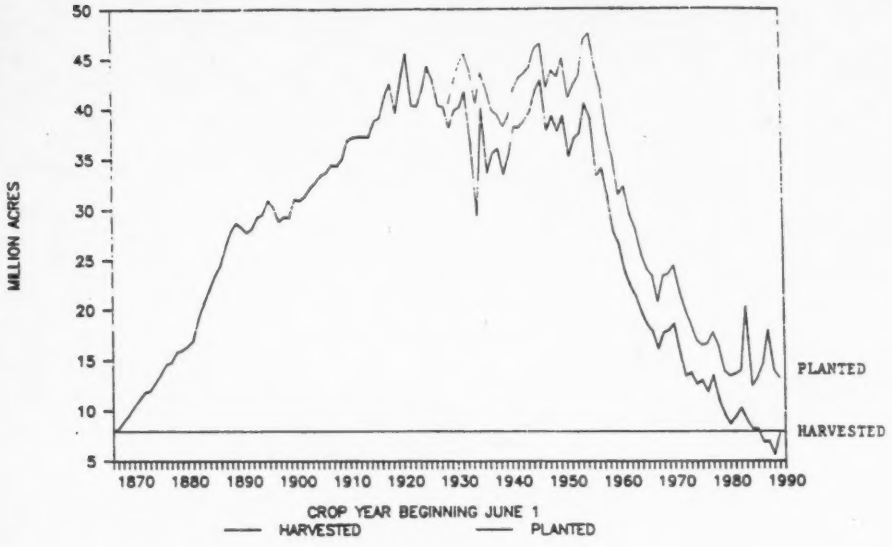
Even with high oats prices in the 1988/89 crop year, producers intend to plant 5% fewer oats acres in 1989 compared to a year earlier, according to the March 1 USDA report.

OATS – PRICE RELATIVE TO CORN



Despite recent declines, oats prices in the past year reached values double that of corn on a comparable weight basis, an unprecendented high level.

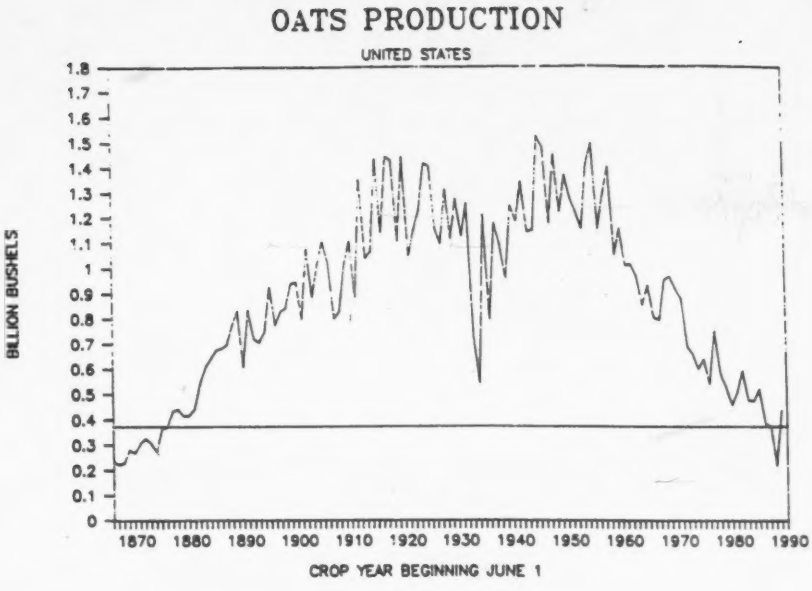
OATS – ACREAGE, UNITED STATES



Record low oats acreage harvested for grain in 1986, 1987, and 1988

Disparity of planted acreage to acreage harvested for grain in recent years relates to oats planted as cover crops on ARP, PLD, and Conservation Reserve acreage.

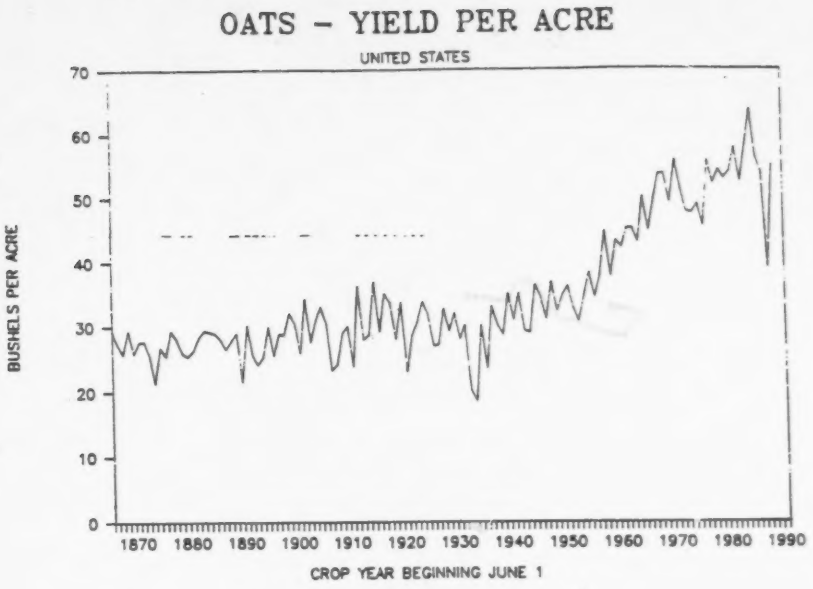
The unprecedented high oats prices in 1988/89 relative to other grains are not encouraging additional oats acreage with acreage intentions on March 1 down 5% from a year ago.



Oats production in the United States in 1988 was the smallest in recorded history.

Even in a non-drought year, 1987 oats production was the smallest since 1876.

Oats production in 1987 was down 75% from the peak in 1945 despite expanding demand for oats as a food grain.

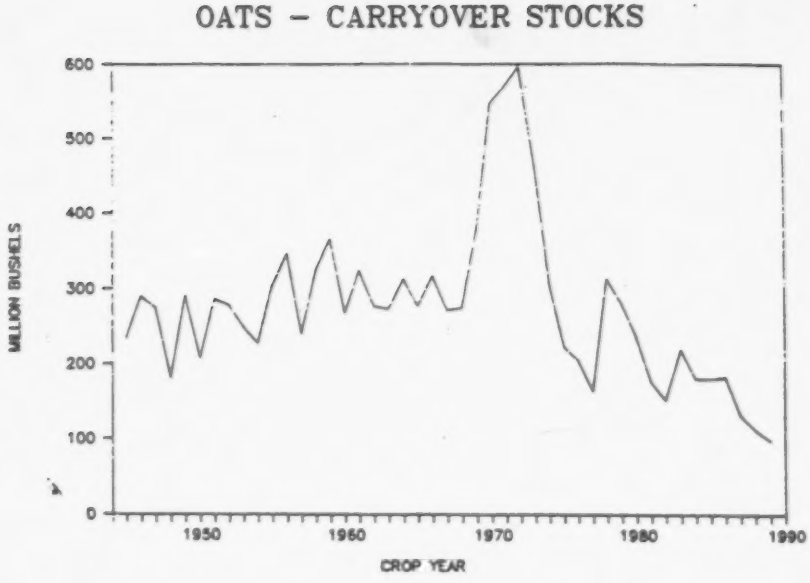


Oat yields have been on the uptrend since the early 1950's. Private funding for varietal research was started in the 1940's.

Private industry funds research at 15 public institutions in the U.S. in an effort to improve productivity per acre and to increase protein levels in oats.

A number of new varieties have been released as a result of this funding.

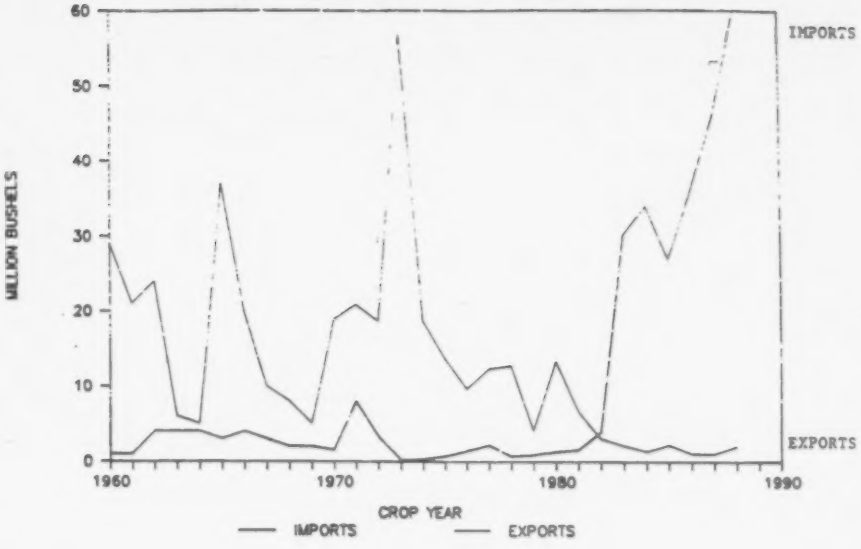
Ogle–A variety developed at the University of Illinois with private funding is now the most productive and most widely grown variety today.



Oats stocks on June 1, 1989 are estimated to be 98 million bushels, the smallest in recent history.

The low stocks place increased emphasis on the need for a quality oats crop in 1989.

OATS – FOREIGN TRADE, UNITED STATES



U.S. exports have dropped to insignificant levels compared to 20-30 million bushels annually in the 1960's and 1970's.

U.S. imports continue to grow, peaking at 60 million bushels in the 1988/89 crop year. Imports are forecast at 40 million bushels this year, according to USDA.

OATS - SUPPLY/DISAPPEARANCE, UNITED STATES — JULY 6, 1989

	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89
							MILLION BUSHELS			
PLANTED ACRES	14.0	13.4	13.6	14.0	20.3	12.4	13.3	14.7	18.0	13.9
HARVEST ACRES	9.7	8.7	9.4	10.3	9.1	8.2	8.2	6.9	6.9	5.6
YIELD/ACRE	54.4	53.0	54.2	57.8	52.6	58.0	63.7	56.3	54.0	39.1
JUN 1 STOCKS	279	236	177	152	219	181	180	183	133	112
PRODUCTION	527	459	510	593	477	474	521	386	374	219
IMPORTS	1	1	2	4	30	34	27	36	46	65
SUPPLY	807	696	688	748	726	688	728	606	553	396
EXPORTS	4	13	7	3	2	1	2	2	2	2
FOOD	54	55	56	57	59	60	61	64	75	90
FEED	480	416	439	418	454	414	444	362	329	176
SEED	33	34	35	51	31	33	37	45	35	30
DISAPPEARANCE	572	518	536	529	546	508	544	473	441	298
MAY 31 STOCKS	236	177	152	219	181	180	183	133	112	98
FREE			148	209	174	174	174	123	106	96
LOAN			4	4	2	2	5	5	0	0
RESERVE			0	5	4	3	3	4	2	0
CCC			1	1	2	1	2	2	4	2
STOCKS/USE	41%	34%	28%	42%	33%	35%	34%	28%	25%	33%

PRICES, NO. 2 HEAVY OATS, MINNEAPOLIS

	F'80	F'81	F'82	F'83	F'84	F'85	F'86	F'87	F'88	F'89
JAS	$1.54	$1.79	$2.01	$1.64	$1.78	$1.80	$1.30	$1.15	$1.74	$3.14
OND	1.64	2.09	2.16	1.62	1.97	1.88	1.30	1.59	2.01	2.81
JFM	1.50	2.23	2.22	1.64	1.89	1.81	1.31	1.55	2.03	2.65
AMJ	1.60	2.21	2.16	1.70	1.92	1.66	1.19	1.69	2.44	2.18
F'YR AVG	$1.57	$2.08	$2.14	$1.65	$1.89	$1.79	$1.28	$1.50	$2.05	$2.70
TARGET				$1.50	$1.60	$1.60	$1.60	$1.60	$1.60	$1.55
LOAN	$1.08	$1.16	$1.24	$1.31	$1.36	$1.31	$1.31	$0.99	$0.94	$0.90

STATEMENT

OF

STEPHEN P. NAUGHT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: The National Barley Growers Association (NBGA) is pleased to be here today in support of HR 2565 which will correct the two greatest inequities in the 1985 Food Security Act.

My name is **Stephen Naught,** and I am a barley grower from the state of Washington as well as the Vice-President of the **National Barley Growers Association (NBGA).** The NBGA has directors from the five states that market over 70% of all barley produced in the United States.

The first issue I would like to address is the process which the United States Department of Agriculture uses to calculate **barley deficiency payments.** The **1985 Food Security Act (FSA)** set the target price for corn and then stated that the other feed grain target prices were to be established by the USDA using **"fair and reasonable"** levels comparative to corn. The decision was made to use **comparative energy feed value** as their criterion. This rationale failed to consider the factor of the **total nutritional value** of each separate feed grain in the same way as the market place does. Then, to add insult to injury, when they calculated the **deficiency payment**, they threw the **National Weighted Average Market Price for Malting Barley** into the **Feed Barley's National Weighted Average Market Price** to arrive at an all -barley price. The barley product that was used under **malting barley** has absolutely nothing to do with feed barley, and was not considered in the formula to establish the target price. This is an apples-to-oranges

comparison; both are fruit but their market place price is not analogous. Consequently, due to the drought in the last two years in the primary malting barley production area, this formula severely crippled the feed barley grower who supplies **70% of the U.S. total barley production.** The price of malting barley was running over one dollar per bushel above normal pricing of previous years, so this "throwing in" of the malting barley price cost the feed barley grower approximately 60 million dollars in 1988 alone, and we must repay this in a few months. We are the only commodity that must repay their entire advanced deficiency payment.

The second issue of grave concern that I would like to address is the **Target Price** itself. Since the passage of the **1985 Farm Bill** the acreage and participation level in the Federal Crop Programs is out of line with the actual production costs, total feed values, and the market needs . A recent study by Abel, Daft, & Early shows major deficiencies between target price and cost of production. Mr. Abel is going to testify on this study today, so I will not elaborate except to say that growers use their own cost of production figures to evaluate what crop to plant, and these costs vary from area to area, obviously due to land quality, moisture availability, etc. The **National Barley Growers Association** has spent many hours evaluating the USDA's **Cost of Production (COP)** for barley and we are satisfied with their procedures and with the data they have used. USDA has used COP before in the late 70's and 80's and it is our opinion that basing **Target Price** on cost of production would be the only equitable method of evaluation for price deficiencies and other support programs. We strongly feel that if the USDA is going to use **Feed Value** to calculate **Target Price**, then they should use the **total nutritional value of FEED BARLEY.**

We agree with the direction the 1985 FSA has gone. That direction has been to basically reduce stocks. As I stated before, we must remove the inequities of the target price and the deficiency payment calculation. It is a necessity to write the new bill as if **GATT is going to fail**. If GATT becomes a reality, then we will gladly rewrite a new bill. We see no movement on the part of the **European Community,** instead they have again **raised their restitution on barley this year by 12%. The Export Enhancement Program (EEP)** is the only program we have to use to counter unfair marketing practices. Therefore, EEP needs to be in the new FSA with the hope that we will not need to use it.

Another issue is that **barley needs its own section in the feed grain program** because of Acre Reduction Program, target prices, loan prices, carryover stocks, etc. These should be tied to that specific crop (barley) not just to corn. Each feed grain needs to stand on its own to meet the market needs of the 1990's.

In conclusion, **HR 2565** would go a long ways toward correcting the inequities and inefficiencies now, and the new bill should allow each crop to respond to market needs.

I thank you for the opportunity to testify before you today and I welcome any questions you might have at this time.

ABEL, DAFT & EARLEY
1410 KING STREET
ALEXANDRIA, VIRGINIA 22314

Statement of
Martin E. Abel
President
Abel, Daft & Earley
Before
Subcommittee on Wheat, Soybeans and Feed Grains
Committee on Agriculture
U.S. House of Representatives
November 9, 1989

Mr. Chairman, I am here today on behalf of the National Association of Barley Growers to discuss a study that Abel, Daft & Earley prepared for the Washington Barley Commission entitled An Analysis of Alternative Policies for Grains and Cotton.

One of the major points made in this study is that target prices established under the Food Security Act of 1985 are distorted among commodities in relation to production costs. Given announced acreage idling provisions, these distortions have encouraged farmers to plant crops with high target prices relative to production costs and discouraged production of crops that have had low target prices relative to production costs or crops that did not have target prices.

The costs used are full production costs estimated by USDA plus 10 percent to reflect a return to management and risk and were the latest data available at the time the study was done. These production costs in terms of an average for the 1985-87 period and target prices for the 1986-89 period are shown in the following table.

Full Economic Costs of Production and Target Prices

	Production Costs Plus 10 Percent: 1985-87 Average	Target Prices 1986	1987	1988	1989	1986-89 Avg.
Wheat ($/bu.)	4.23	4.38	4.38	4.23	4.10	4.27
Corn ($/bu.)	2.35	3.03	3.03	2.93	2.84	2.96
Sorghum ($/bu.)	2.32	2.88	2.88	2.78	2.70	2.81
Barley ($/bu.)	2.93	2.60	2.60	2.51	2.43	2.54
Oats ($/bu.)	2.52	1.60	1.60	1.55	1.50	1.56
Rice ($/cwt)	8.61	11.90	11.66	11.15	10.80	11.38
Cotton (¢/lb.)	75.4	81.0	79.4	75.9	73.4	77.4

During the 1986-89 period, average target prices for wheat and cotton were about equal to average full production costs during the 1985-87 period. Average target prices for corn,sorghum, and rice, on the other hand, were 26, 21 and 32 percent, respectively, above average full production costs. Finally, average target prices for barley and oats were 13 and 40 percent, respectively, below average target prices for these crops.

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The concept of deficiency payments based on target prices was introduced into U.S. agricultural policy as a way to provide income protection to producers while at the same time allowing market prices and loan rates to be at lower and competitive levels. I believe it was the intent of Congress to provide an equitable degree of income protection among commodities and one measure of income protection is the level of payments for each commodity in relation to its production costs.

The distortions between target prices and production cost that emerged in the Food Security Act of 1985 were, I am sure, unintentional. They have, however had important consequences. Farmers have had strong incentives to produce crops that have high target prices relative to costs. Conversely, they have had much less incentive to produce crops with low target prices relative to costs, namely barley and oats. The production patterns experienced since 1986 have corresponded to this distorted incentive structure. Barley and oat production remained low and in the case of oats production was so low as to result in record imports to meet domestic needs. Production of major crops that do not receive target prices such as soybeans and sunflowerseeds has also been discouraged under the Food Security Act of 1985.

The other element of price supports is the loan rate or market support rate. Historically, loan rates have provided support to market prices. It has been the intent to set loan rates at levels that keep the United States competitive in world markets. In retrospect, that has not always been the case, especially in the first half of the 1980's, but the Food Security Act of 1985 allowed substantial downward adjustments in loan rates to assure competitiveness. Among the feed grains, it has always been a principle of policy and programs to set loan rates based on relative feeding value. That has been and continues to be the case and, therefore, loan rates among feed grains are not distorted.

Distorted target prices create both inequities among commodities and reduce production efficiency. Production decisions are strongly based on government programs rather than on economic and market signals. Removing these distortions will result in a more efficient and competitive agriculture.

There are several ways by which these distortions can be reduced if not eliminated. The most direct way is to realign target prices to better match production costs. This approach means that target prices for some commodities will have to be reduced while others will have to be increased. A second approach is to restrict target price applicability to some percent of permitted acres with the percentage varying among commodities. Under this approach, crops which have high target prices relative to production costs would receive target prices on a lower percent of permitted acres than those crops whose target prices are low relative to production costs. It moves in the same direction as realigning target prices without having to change their relative values. Finally, one could use some combination of the two approaches so that no one approach has to be relied on entirely.

This concludes my formal presentation and I would be pleased to answer any questions the committee might have.

STATEMENT

OF

JAMES O. BROTEN
VICE CHAIRMAN
NORTH DAKOTA BARLEY COUNCIL

Mr. Chairman, Members of the Committee. I am James Broten from Dazey, North Dakota. I appear today as a representative of Midwest barley producers. I believe my testimony is acceptable to barley farmers nationwide. I am Vice Chairman of the North Dakota Barley Council, a commodity check-off organization with offices at 415 - 38th Street Southwest, Fargo, North Dakota. I am a member of the National Barley Growers Association with offices at 415 - Second Street Northeast, Suite 300, Washington, D.C.

It is a pleasure to be able to testify on the 1990 Food Security Act (FSA) as a barley producer and representative of other producers. Barley producers generally feel there have been several areas in past farm bills that tend to relegate barley to a secondary position. Thus the opportunity to discuss these discrepancies especially as it relates to differences between barley used for feed purposes and that used for malting and food is appreciated. I believe it gives us a opportunity to convince the framers of the 1990 act to modify the several inconsistencies as I shall point out.

Briefly - malting barley is a specialty crop. It is produced for a specific market and as such the grain must meet rigid quality specifications including the ability to germinate at 97% or better. Because of these unique quality factors, malting barley usually demands a premium. Under normal conditions this premium will average 5 to 40 cents (ten year average 31 cents) above ordinary barley. The drought conditions of 1988 and 1989 were most severe in the major United States malting barley producing area of the Upper Midwest. Because of reduced supplies, real and imagined, the spread between ordinary barley and malting barley was as high as $2.00 to $2.50 per bushel. This abnormal spread caused an equally unnatural shewing of calculations in determining deficiency payments for 1988 crop, and potential is strong for abnormal effect on the 1989 crop deficiency and very probably, under present formula, the 1990 crop.

North Dakota is a major producer of malting barley, however, sixty percent of our crop still must be sold thru the feed market. It has been indicated that properly formulating the basis for calculating deficiency payments would be a wind fall for the malting barley producer. This is hard to substantiate in light of the ordinary premiums paid for malting barley and should not be evaluated on the basis of two exceptional marketing years. Evaluation should also consider that only 30% of the United States barley marketed usually commands malting premiums.

The North Dakota Barley Council and National Barley Growers Association have spent many hours during the past five years attempting to ferret out the methods and statistics used to establish loan, target price and average farm prices. We believe we now have a reasonable understanding on how these parameters are calculated. It is because of our evaluation of the development of these figures that lead us to protest the current methods.

It is our understanding that in calculating farm barley prices that each bushel sold carries its selling price. We do not believe this is necessarily the case because of the sampling methods used. Briefly it would appear that the value of malting barley enters the calculations at an inordinately high level when compared to its bushel proportion of the total crop. Factors that lead us to this conclusion are that all maltsters/brewers are sampled in calculating malting barley prices. Thus for all intents and purposes all malting barley sold would appear in the sampling, this when you consider malting barley sales only represents about 30% of the total United States crop.

While it appears practically all malting barley shows up in the sampling, only a small percent of the remaining elevators, who handle most of the common barley sales, are contacted. Thus much of the factoring for non-malting prices are calculated rather than actual prices. Add to this the fact that loan (CCC) barley never appears in the formula, and some years a considerable amount of barley is put under loan, we feel malting barley prices are given too much consideration. This concern is magnified even more when barley is forfeited to CCC. An added factor that causes concern with the high incidence of malting barley appearing in the sampling is that in many cases elevators receiving contract malting barley are considerable distances from where the grain is raised. If these elevator prices are used as the basis to establish the farm rate, they also include a portion of the transportation cost and thus if this cost is not factored out the price shown would be higher than the farmers actually received.

The drought shortened crops of 1988 and 1989 pushed malting barley prices to the extreme but had only moderate effect on feed barley prices. As a result of sampling methods malting barley prices caused inordinately high average farm gate prices.

Perhaps the major reason to review methods of calculating deficiency prices is that in establishing target price, the malting barley premium is not considered. Target price for barley is established based on the feed value of barley in relation to the feed value of corn. Against this, however, when the cash price is established, the malting premium is included, not only included but, as we have indicated, at a level higher than its true portion of the crop warrants.

Other factors to consider include the value USDA places on barley. The USDA level of comparison of barley feed value to that of corn is about 80-85%. Barley can and does rate 104% of corn or better when fed to certain classes of livestock. USDA uses this 80 - 85% figure which in many cases does an injustice to the true value of barley.

This disparagency of barley when compared to corn can also be shown by comparing cost of production of the two crops and relative loan and target price values. The 1987 loan price for barley was only 91% of the cash cost of production. On the same basis the corn loan was 131% of cash cost. The 1987 barley target price was 92% of total economic cost of production, while the corn target was 138% of total economic cost of production. Use of cost of production would be a truer reflection of actual market response to barley supply and demand than using the current method of calculation.

Barley producers appreciate the opportunity to appear before congressional committees to support consideration of barley in the 1990 FSA. We do feel though that if barley were included under a separate section of the Feed Grains Title that many of the discrepancies would be eliminated. Barley producers want barley included and would request that the discretionary powers now given to The Secretary to include or omit barley be written out of the legislation. Including barley in the Feed Grain Title of the 1990 FSA as a separate section would permit evaluation of supply/demand potential on the merit of actual barley availability rather than tying it to corn. There is precedence for establishing added sections to the Feed Grain Title in that corn silage was given a separate section in 1985 FSA.

Barley producers feel if funds are available for paid land diversion that these funds could be better used to strengthen Export Enhancement Programs and barley TEA projects. A viable, strong export program is needed. At present the EEP has been a helpful and useful tool in moving barley into export and to win back markets taken over by EC through our neglect. Barley producers support strong EEP and TEA programs. EEP will develop an expansion of export markets for feed barleys and malt adding to the demand of our domestic feed market. It allows the movement of grain that does not meet malting and brewing and industry quality specs into marketable position.

We would encourage programs that enhance farm storage of loan grain. We feel the producer is in a good position to feed grain into the market at a moderate, reasonable rate as market prices dictate.

The following statement may not meet much favor from several sectors of the economy but we encourage you to write the 1990 FSA as though the GATT will fail. We can not afford to dally on our next Farm Bill waiting for other countries to make up their regulations or accept GATT proposals. We need a strong, practical program developed in a thoughtful and timely manner. If the GATT does materialize, and by my statement I am not attempting to gaze into a crystal ball or in any way pretend to know what will happen, but the bill can always be modified so it will comply.

Barley producers generally support the concept of the 1985 FSA and would like to see many provisions carried over into the 1990 bill. As mentioned earlier we felt modifications are in order and have expressed our opinions with this in mind.

Some brief general comments on additional provisions barley growers would like studied. The growers feel that base and yield figures used in the program are generally out of date. Tend to penalize the progressive producer. These figures should be established on current supply and demand and should reflect the grower's true ability to produce.

Growers want to see the government use its loan and grant programs aggressively to support a vigorous export program.

Barley should be included in "Food Assistance" programs. Nutrition studies have shown barley to be a good source of Beta glucans for human food. Thus having characteristics that tend to limit and even reduce cholesterol deposit build up.

The growers do not essentially favor many of the flexible base programs that are being discussed but feel a minor (5-10%) allowance in base exchange would assist in farming plans. An example - a field with either an acre or so larger or smaller than base allows could be finished with the same crop. This would be a small tolerance and would aide the farmer in maintaining his base and still do a good job.

Growers support continued programs of the Foreign Ag Service in export promotion.

Producers would support removal of the so-called "Malting Barley Exemption" (2) (C) which allows the Secretary to declare producers eligible for feed grain loans etc., even though overseeded if they seed acceptable malting barley varieties and the exemption has been declared in force. This regulation has not been invoked for several years and malting barley production has been adequate to supply domestic demand.

"Cargo preference" expansion is opposed.

Again, thank you for this opportunity to express the opinions of barley producers on factors that should be considered when writing the 1990 Farm Security Act.

(Attachment follows:)

U.S. AVERAGE COST OF PRODUCTION FOR MAJOR CROPS, 1985-1987

	CORN			SORGHUM			BARLEY			OATS			WHEAT		
	'85	'86	'87	'85	'86	'87	'85	'86	'87	'85	'86	'87	'85	'86	'87
CASH EXPENSE															
Variable ($/planted acre)	135.32	120.89	119.14	62.61	55.57	54.74	57.89	50.31	48.37	41.85	37.86	39.74	51.10	45.94	44.56
Fixed ($/planted acre)	63.77	49.83	57.40	26.89	25.25	26.37	28.05	25.05	28.81	29.12	29.64	35.00	25.23	21.73	23.88
Total ($/planted acre)	119.09	170.72	176.54	89.50	81.00	81.11	85.94	75.36	77.18	70.97	67.30	74.74	76.33	67.67	68.44
TOTAL ECONOMIC COST	281.32	240.56	254.11	147.98	133.65	135.23	128.90	119.33	121.08	112.04	119.49	127.36	125.26	112.72	115.14
YIELD (bu/planted acre)	121.96	126.25	126.86	65.89	66.91	68.79	44.96	47.21	46.96	45.14	57.64	55.21	31.41	28.74	31.64
COST PER BUSHEL															
Variable Cash	1.11	0.96	0.94	0.95	0.83	0.80	1.29	1.07	1.03	0.93	0.66	0.72	1.63	1.60	1.41
Fixed Cash	0.52	0.39	0.45	0.41	0.38	0.38	0.62	0.53	0.61	0.65	0.51	0.63	0.80	0.76	0.75
Total Cash	1.63	1.35	1.39	1.36	1.21	1.18	1.91	1.60	1.64	1.57	1.17	1.35	2.43	2.35	2.16
Total Economic Cost	2.31	1.91	2.00	2.25	2.00	1.97	2.87	2.53	2.58	2.48	2.07	2.31	3.99	3.92	3.64
TARGET PRICE	3.03	3.03	3.03	2.88	2.88	2.88	2.60	2.60	2.60	1.60	1.60	1.60	4.38	4.38	4.38
(88)			(2.93)			(2.78)			(2.51)			(1.55)			(4.23)
(89)			(2.84)			(2.70)			(2.43)			(1.50)			(4.10)
LOAN RATE	2.55	1.92	1.82	2.42	1.82	1.74	2.08	1.56	1.49	1.31	0.99	0.94	3.30	2.40	2.28
(88)			(1.77)			(1.68)			(1.44)			(0.90)			(2.21)
(89)			(1.65)			(1.57)			(1.34)			(0.85)			(2.06)

THOMAS M. IVERSON
PAST PRESIDENT
IDAHO GRAIN PRODUCERS ASSOCIATION

EXECUTIVE SUMMARY

Mr. Chairman and members of the Subcommittee, I am Tom Iverson of Bonners Ferry, Idaho. I appear before this Subcommittee today representing the Idaho Grain Producers Association and the barley producers in the western states.

I am a barley producer, and it is indeed a pleasure to speak with you today on behalf of the western barley producers that feel they have been unfairly treated in the 1985 Food Security Act.

No one, including farmers, takes pleasure in having to return money for whatever the reason. But the return of the 1988 barley advanced deficiency payment is especially unfair due to the way it was calculated.

The target price for barley is determined based on what the USDA considers to be its relative feed energy value compared to corn. But when the USDA calculates the deficiency payment a barley farmer receives, they include both the malt and feed barley prices. It's a question of fairness. **If the target price for barley is based on its relative feed value to corn; then, to be consistent, the deficiency payment should only be based on feed barley prices.** Malt barley prices should not be included in the deficiency payment calculation because they were not considered in the target price determination. H.R. 2565 would exclude malt barley prices in the deficiency payment calculation in the 1989 barley program.

Including malt barley prices in the deficiency payment calculation is especially unjust to feed barley growers. In the states of Oregon, Washington, Idaho, and Montana over 65% of the varieties produced are feed barley varieties. A feed barley variety cannot be sold to a malt company for a premium. **The vast majority of the barley growers in the West will never receive a malt barley premium because they do not produce malt barley varieties.** Put simply, cows and sheep love feed barley varieties, but maltsters refuse to buy them.

Thirty-five percent of the varieties produced in the western region are malt barley varieties; but only 25% of that production actually makes it into the malt houses due to quality factors. The remaining 10 percent of the malt barley production goes back into the livestock feeding channels. **Therefore, in the western states about 75 percent of the barley that is produced is feed barley.**

If you had good quality **malt barley** in 1988, you could sell it for over **$3.30 per bushel** in Idaho. But good quality **feed barley** was only selling for a little over **$2.30 per bushel.** Both feed and malt barley growers were hurt by the drought in the western states. Yields were down, quality was down; and, to top it off, the USDA tells us that we have to repay our entire 1988 advanced deficiency payment because the combined malt and feed barley prices were above the $2.51 target price.

Yes, 25% of the barley growers in the West received a good price for their malt barley in 1988; but is it "Fair and Reasonable" to penalize the other 75% who produced feed barley well below the target price?

Barley program sign-up numbers are considerably lower than other commodities because of the inequity. For example: in 1989 only 50% of the total barley base in Idaho was signed up for the feed grains program. Irrigated barley growers with malt barley contracts left the farm program because it offered very little income protection. Yet, those irrigated malt barley growers who are out of the farm program still influence the deficiency payment received by the barley grower in the farm program. **Nationally, only 68% of the effective barley base is enrolled in the farm program in 1989. The effective base enrolled in the corn program is 81%; in the cotton program, 89%; in the rice program, 94%.** The enrollment figures are higher than barley in these commodities because the farm program offers those growers greater income protection.

In 1989, barley farmers will again be faced with repaying a portion of their advanced deficiency payment (9.2 cents/bu) received for signing up for the 1989 Feed Grains program. Malt barley prices will again exceed feed barley prices by about 80 cents per bushel. The all barley price during the 5-month marketing period used to calculate the 1989 barley deficiency payment will be about $2.40/bu., only three cents less than the 1989 target price for barley of $2.43/bu.

Feed barley growers who are earning 27 cents a bushel less than they did last year will again be asked to repay a portion of their 1989 advanced deficiency payment. Nationally, barley growers will repay approximately 27 million dollars to the USDA in 1989 unless H.R. 2565 is implemented to correct this inequity.

Barley growers also feel that the USDA is grossly understating the true feeding value relationship between corn and barley. The USDA argues that barley

is only 81 percent of the feeding value of corn. But current research conducted by the National Research Council clearly shows that barley is equal to other grains in terms of feed energy value when fed to ruminant animals. Over 90% of the barley fed in this country is consumed by beef, dairy, and sheep, all ruminant animals.

Barley actually exceeds the feed value of other grains in all livestock classes when the total nutritive profile is considered.
Barley contains 2 to 5 percent more protein than other grains and has a favorable amino acid balance.

If the USDA is to continue to determine target prices based on relative feed value between grains, they should be required to include the entire nutritive qualities of each grain, not just feed energy values.

In H.R. 2565, the target price for barley in 1990 would move to the national average cost of producing a bushel of barley, plus 10% for management and family labor. The current target price formula allows some commodities to receive well above their average cost of production; while other commodities, like barley and oats, suffer with a target price well below the cost of production.

The Idaho Grain Producers Association believe that it is "Fair and Reasonable" to set the target price for barley on the national average cost of production plus a small return for management. We support this measure in H.R. 2565 and would further support this method of determining the barley target price for the 1990 farm bill.

In conclusion, when the growers in Idaho and other barley states became aware of the program inequities I have just outlined, we presented our concerns to the USDA. We usually found a sympathetic ear, but no action. The normal response was that it was too expensive to correct the 1988 inequity, and we should just "take our lumps" for three years and try to correct the problem legislatively in the new 1990 farm bill.

Mr. Chairman and members of the Subcommittee, it is because of this type of irresponsible administration of the 1985 Food Security Act, which clearly gives the Secretary of Agriculture the discretion to be "Fair and Reasonable", that we are here before you today. While there is no question that the barley target price and deficiency calculation formula need to be corrected in the new farm bill. It is painfully clear to barley growers that the new Food Security Act will not be

implemented until the 1991 crop year.

The barley growers in this country will be forced to repay the entire 1988 advanced deficiency payment beginning December 31, 1989. The USDA estimates that barley growers will return approximately 94 million dollars; over 10 million dollars will come from the state of Idaho alone. It now appears we will have to repay a portion of our 1989 advance deficiency as well, and in a year when feed barley is returning 27 cents a bushel less than last year. Who knows what is in store for us in 1990?

Correction of the problem in the 1990 farm bill is imperative, but many barley growers cannot, and should not have to, wait until then to be treated in a "Fair and Reasonable" manner. The Barley Correction Act of 1989-H.R. 2565-addresses our concerns immediately. Therefore, I urge this Subcommittee to support Congressman Stalling's legislation to restore equitable treatment of the barley producers in this country under the 1985 Food Security Act.

I would suggest to you that the immediate problem is one specifically of barley; but that in a broader sense, the real issue is one of fairness. While some of you no doubt represent districts which do not have a large number of barley producers, I urge you to look past commodity specifics. Simply put, a gross inequity in the 1985 Food Security Act has been discovered and needs to be corrected immediately.

Mr. Chairman, this concludes my oral testimony to this committee. A more complete and thorough written testimony has been submitted to this Subcommittee for the record.

I would like to thank you Mr. Chairman and members of the Subcommittee for this opportunity to appear before you, and I would be happy to answer any questions you may have at this time.

(Attachments follow:)

COMPLETE TESTIMONY

Mr. Chairman and members of the House Subcommittee on Wheat, Soybeans, and Feed Grains, I am Tom Iverson of Bonners Ferry, Idaho. I appear before this subcommittee today representing the Idaho Grain Producers Association and the barley producers in the western states. The Idaho Grain Producers Association represents wheat and barley producers throughout the state of Idaho and is located at 1109 Main Street, Suite 315, Boise, Idaho 83702.

I am a barley producer and it is indeed a pleasure to speak with you today on behalf of the western barley producers that feel they have been unfairly treated in the 1985 Food Security Act. The Idaho Grain Producers Association fully support H.R. 2565 -The Barley Correction Act Of 1989- and would like to thank Congressman Stallings and the bill co-sponsors for their efforts to gain equitable treatment for barley producers in the farm program.

Section 105C (c) (1) (F) of the amended 1949 Agricultural Act provides the Secretary of Agriculture with the authority to determine the payment rate for barley and other feed grains based on a "Fair and Reasonable" formula in relation to the payment rate made available for corn. The barley growers in Idaho and throughout the West do not feel the current payment rate for barley is "Fair and Reasonable".

On December 31, 1989, barley growers who signed up for the 1988 barley program will be required to repay all of the advanced deficiency payment they received in the spring of 1988. The USDA-ASCS has informed barley growers that the repayment is necessary because the 1988 price for all barley, during the 5-month period used to calculate the deficiency payment, was $2.83 per bushel; which is above the 1988 barley target price of $2.51/bu.

Table 1
1988 Feed Grain Crop Deficiency Payments

Crop -	Advanced Payment (Dollars Per Bushel)	Final Payment
Corn	.44	.36
Sorghum.....	.432	.48
Barley.....	.304	.00
Oats.....	.12	.00

(Source USDA)

Table 1 indicates that corn producers will be required to return 8 cents of their 1988 advanced deficiency payment. Barley growers will be required to repay the entire 30.4 cents per bushel advanced deficiency payment. We estimate that Idaho barley growers will repay over 10 million dollars to the USDA. Nationally, it is estimated that barley growers will return 94 million dollars.

No one, including farmers, takes pleasure in having to return money for whatever the reason. But the return of this 1988 advanced deficiency payment is especially unfair due to the way it is calculated.

In the 1981 Farm Bill, target price determination for feed grains was shifted from relative cost of production to what the Secretary of Agriculture determined to be "Fair and Reasonable" relative to corn. The USDA determined that the target price for barley, oats, and sorghum should reflect its relative feed energy value across all livestock classes compared to corn. Since the 1981 farm bill, the USDA has progressively worked towards that goal (refer to table 2- history of target prices 1977 to present). On the surface, this method of target price determination seems "Fair and Reasonable". In reality, the USDA has misrepresented the true feeding value of barley in relationship to corn and has totally excluded malt barley from the target price determination.

Table 2
History of Target Prices (1977-1990)

		1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Corn	($/BU.)	2.00	2.10	2.20	2.35/2.05	2.40	2.70	2.86	3.03	3.03	3.03	3.03	2.93	2.84	2.75
Sorghum	($/BU.)	2.28	2.28	2.34	2.50/2.45	2.55	2.60	2.72	2.88	2.88	2.88	2.88	2.78	2.70	2.61
Barley	($/BU.)	2.15	2.25	2.40	2.55/2.29	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.51	2.43	2.36
Oats	($/BU.)						1.50	1.60	1.60	1.60	1.60	1.60	1.55	1.50	1.45
Wheat	($/BU.)	2.90	3.40	3.40	3.63/3.08	3.81	4.05	4.30	4.38	4.38	4.38	4.38	4.23	4.10	4.00
Upland Cotton	($/LB.)	0.4780	0.5200	0.5770	0.5840	0.7087	0.7100	0.7600	0.8100	0.8100	0.8100	0.7940	0.7590	0.7340	
ELS Cotton	($/LB.)								0.9900	1.0314	1.0248	0.9770	0.9570	0.9670	
Rice	($/CWT.)	8.25	8.53	9.05	9.49	10.68	10.85	11.40	11.90	11.90	11.90	11.66	11.15	10.80	10.71

(Source - USDA)

First, the malt barley factor. The target price for barley is determined based on what the USDA considers to be its relative feed energy value compared to corn. But when the USDA calculates the deficiency payment a barley farmer receives, they include both the malt and feed barley prices. It's a question of fairness. If the target price for barley is based on its relative feed value to corn; then, to be consistent, the deficiency payment should only be based on feed barley prices. Malt barley prices should not be included in the deficiency payment calculation because they were not considered in the target price determination. H.R. 2565 would exclude malt barley prices in the deficiency payment calculation in the 1989 barley program.

Including malt barley prices in the deficiency payment calculation is especially unjust to the feed barley growers. In the states of Oregon, Washington, Idaho, and Montana over 65% of the varieties produced are feed barley varieties (refer to table 3). A feed barley variety cannot be sold to a malt company for a premium. The vast majority of the barley growers in the west will never receive a malt barley premium because they do not produce malt barley varieties.

Table 3
1989 Barley Variety Survey

	Feed Varieties (Acreage Produced)	Malt Varieties (Acreage Produced)
Oregon.....	188,300	21,700
Washington.....	435,700	64,300
Idaho	408,900	461,100
Montana.....	1,092,400	607,600
Total	2,125,300	1,154,700

(Source American Malting Barley Association and State Barley Commissions)

Thirty-five percent of the varieties produced in the western region are malt barley varieties, but only 25% of that production actually makes it into the malt houses due to quality factors. The remaining 10 percent of the malt barley production goes back into the livestock feeding channels. Therefore, in the western states of Oregon, Washington, Idaho, and Montana about 75 percent of the barley that is produced is feed barley.

During the drought year of 1988, the price spread between malt barley and feed barley averaged about $1 per bushel in the western region (Refer to graph-Appendix Figure 1). If you had good quality malt barley in 1988, you could sell it for over $3.30 per bushel in Idaho. But good quality feed barley was only selling for a little over $2.30 per bushel. Both feed and malt barley growers were hurt by the drought in the western states. Yields were down, quality was down; and, to top it off, the USDA tells us that we have to repay our entire 1988 advanced deficiency payment because the combined malt and feed barley prices were above the $2.51 target price.

Members of the committee, over 70% of the barley produced in the western region received less than the $2.51/bu target price for barley in 1988. On the average, feed barley received about 20 cents below the target price. Growers in my state are angry and feel that they have not been treated in a "Fair and Reasonable" manner. Yes, 25% of the barley growers in the west received a good price for their malt barley; but is it "Fair and Reasonable" to penalize the other 75% who produced feed barley well below the target price?

Irrigated farm ground constitutes over 50% of the barley acreage harvested in Idaho. Over 95% of the malt barley sold in Idaho comes from irrigated barley farmers who have less incentive to participate in the farm program. For example: in 1989 only 50% of the total barley base in Idaho was signed up for the feed grains program. Irrigated barley growers with malt barley contracts left the farm program because it offered very little income protection. Yet, those irrigated malt barley growers who are out of the farm program still influence the deficiency payment received by the barley grower in the farm program. Nationally, only 68% of the effective barley base is enrolled in the farm program in 1989. The effective base enrolled in the corn program is 81%; in the cotton program, 89%; in the rice program, 94%. The enrollment figures are higher than barley in these commodities because the farm program offers those growers greater income protection.

In 1989, barley farmers will again be required to return a portion of their 9.2 cent advanced deficiency payment received for signing up for the 1989 Feed Grains program. Table 4 indicates that malt barley prices will again exceed feed barley prices by a wide margin. The all barley price during the 5-month marketing period used to calculate the 1989 barley deficiency payment will be about

$2.40/bu., only three cents less than the 1989 target price for barley of $2.43/bu. Feed barley growers who are earning 27 cents a bushel less than they did last year will again be asked to repay a portion of their advanced deficiency payment. Nationally, barley growers will repay approximately 27 million dollars to the USDA in 1989 unless H.R. 2565 is implemented to correct this inequity.

Table 4
Barley Marketing Year 1989/90
National Average barley Prices By Month

	June	July	August	Sept	Oct	Avg.
Feed Barley	2.14	1.94	2.03	1.98	2.00*	2.02
Malt Barley	2.62	2.67	3.06	2.87	2.87*	2.82
All Barley	2.33	2.15	2.72	2.47	2.32*	2.40

*Preliminary estimates
(Source: Nat'l Ag Statistical Service)

In response to a letter from the National Barley Growers Association requesting that the USDA exclude malt barley prices from the deficiency payment calculation, Secretary of Agriculture Clayton Yeutter stated, "The target price of barley is above feeding value in relation to corn. If the barley target had been set at feeding value, about 81 percent of corn, it (the 1988 target price) would have been established at $2.39 per bushel instead of $2.51."

Unfortunately, the Secretary of Agriculture is gravely misinformed concerning barley's feeding value in relation to corn. The 81 percent figure quoted by Secretary Yeutter is based on research that is over 25 years old on the relative metabolizable energy values in the three main livestock classes. Since that time, new barley varieties have made significant progress in terms of feeding value to livestock. The National Research Council (NRC) has done extensive research on the relative feed value of each commodity in the three classes of livestock. The NRC publishes The United States--Canadian Tables of Feed Composition. Table 5 is a comparison of the Metabolizable Energy (ME) values of the two main feed barleys, corn and grain sorghum.

The research clearly shows that barley is roughly equal to other grains in terms of feed energy value when fed to ruminant animals (beef, dairy, and sheep). Barley also performs favorably when fed to swine. Barley clearly does not perform as well in poultry when compared to corn and sorghum. However, over 90% of the barley fed in this country is consumed by beef, dairy, and sheep all ruminant animals. A small percentage is fed to swine with a very small percentage being fed to poultry.

Table 5

	Barley Grain	Barley Pacific Coast	Corn Grain	Grain Sorghum
Ruminants	3.29	3.38	3.39	3.38
Swine	3.29	3.37	3.64	3.58
Poultry	2.84	2.92	3.79	3.69
Average	3.14	3.35	3.61	3.55
Therefore:, if corn is values at 100%, then: (pound for pound)				
All three species	87.0%	92.8%	100%	98.3%
Poultry	74.9%	77.0%	100%	97.4%
Ruminants, Swine	93.5%	96.0%	100%	98.9%
Ruminants alone	97.1%	99.7%	100%	99.7%

(Source: The United States--Canadian Tables of Feed Composition, Third Revision, 1982, Published by the National Research Council)

It is not "Fair and Reasonable" to compare barley with corn in all three livestock classes when barley is rarely used in the poultry industry. The USDA seems to have its mind set that barley's energy value is inferior to corn; when, in fact, barley performs equally to corn in the livestock class in which it is principally used.

Historically, barley has been purchased based on its relative metabolizable energy value compared to corn. But, with the development of the computer and the need in the livestock industry to formulate a least cost ration, the other nutrients have value over and above the energy values in each of the grains. Currently, all nutrients in a grain are evaluated for the animals ration and thus have value.

The protein in each of the grains is the nutrient with the next level of significance to energy. The nutritional value of protein is based on it's quality. Protein quality is a measure of the amino acid balance of the grain compared to the amino acid requirements of the animal that will use the grain. If the balance in the grain is exactly the same as that needed by the animal, the protein is considered perfect.

Barley's protein quality is the best of the three major feed grains because of barley's amino acid balance. As shown in table 6, protein levels are 2 to 5 percent higher in barley than found in corn or grain sorghum. The current cost of protein, as quoted in Feedstuffs magazine, is approximately $5.50 for each 1% of protein.

Table 6

	Barley Grain	Barley Pacific Coast	Corn Grain	Grain Sorghum
Protein %*	15.5	12.4	10.1	10.3
% above corn	5.4	2.3	--	0.2
Added value @ $5.50/1%**	$29.70	$12.65	--	$1.10

All values based on 100% dry matter
*(Source U.S. Canadian Feed Composition Tables)
**(Feedstuffs Magazine, Average Protein Prices Quoted)

To illustrate more clearly the true nutritional value of the various grains, table 7 puts a monetary value on the energy and protein values of the grains and adds them together. As the table indicates, barley actually outperforms the other grains in all livestock classes when the total nutritional value is considered.

Table 7

		Barley Grain	Barley Pacific Coast	Corn Grain	Grain Sorghum
All Species-	Energy	$ 87.00	$ 92.00	$100.00	$ 98.30
	Protein	29.70	12.65	0	1.10
	Total	$116.70	$104.65	$100.00	$ 99.40
Ruminant, Swine-	Energy	$ 93.50	$ 96.00	$100.00	$ 98.90
	Protein	29.70	12.65	0	1.10
	Total	$123.20	$108.65	$100.00	$100.00
Ruminant-	Energy	$ 97.10	$ 99.70	$100.00	$ 99.70
	Protein	29.70	12.65	0	1.10
	Total	$126.80	$111.35	$100.00	$100.80

If the USDA is to continue to determine target prices based on relative feed value between grains, they should be required to update their feed value information and consider the entire nutritive qualities of each grain, not just metabolizable energy values.

In H.R. 2565, the target price for barley in 1990 would move to $2.93 per bushel. This figure was arrived at by averaging the latest national cost of production figures for barley over three years and then adding 10% for management and family labor. As shown in table 8, the target price for barley and oats is well below the cost of production. Other commodities enjoy a target price well above their cost of production.

Table 8

Full Economic Costs of Production and Baseline Target Prices
Full Production Costs

		1985	1986	1987	Ave. 1985-87	Full Cost Plus 10%	Target Prices 1989/90	1990/91
Wheat	($/bu.)	3.99	3.82	3.64	3.85	4.23	4.10	4.00
Corn	($/bu.)	2.36	2.01	2.05	2.14	2.35	2.84	2.75
Sorghum	($/bu.)	2.29	2.04	2.00	2.11	2.32	2.70	2.61
Barley	($/bu.)	2.87	2.53	2.58	2.66	2.93	2.43	2.36
Oats	($/bu.)	2.48	2.07	2.31	2.29	2.52	1.50	1.45
Rice	($/cwt.)	8.78	7.15	7.55	7.83	8.61	10.80	10.71
Cotton	(¢/lb.)	67.6	74.8	63.2	68.5	75.4	73.4	72.9
Soybeans	($/bu.)	4.98	4.83	4.95	4.92	5.41	n.a.	n.a.

(Source USDA)

Some have questioned the accuracy of the USDA-Economic Research Service cost of production figures. But, last spring, a group of barley growers from every major barley producing region in the country sat down with USDA-ERS staff personnel and walked through their cost of production process and figures. We assumed that, being bureaucrats, their figures would be way off. What we found was a thorough analysis of each state and each region within the state. I compared my cost of production figures with theirs and found very little difference. These bureaucrats had done their homework and their cost of production figures are very accurate for barley and I assume for other commodities as well. Sure, there will be some growers with a higher cost of production and some with a lower cost of production; but on the average, their figures are accurate.

Determining the barley target price based on the cost of production would be a fair and reasonable method of treating the barley growers of this country. The purpose of the 1985 Food Security Act was to ensure adequate supplies of the major program commodities in exchange for a certain level of income protection for the growers of these commodities. The current program makes it more attractive to raise certain commodities over others. In my case, I raise as much wheat as I possibly can because the target price is closer to my true cost of production. We do not advocate that corn and sorghum target prices come down substantially to better reflect their cost of production. Instead, we ask that barley also be allowed to recover its cost of production, plus a small amount for management.

The Idaho Grain Producers Association feels that it is "Fair and Reasonable" to set the target price for barley to more closely reflect the actual cost of production. We support this measure in H.R. 2565 and would further support this method of determining the barley target price for the 1990 farm bill.

In conclusion, when the growers in Idaho and other barley states became aware of the program inequities I have just outlined, we presented our concerns to the USDA. We usually found a sympathetic ear, but no action. The normal response was that it was too

expensive to correct the 1988 inequity and we should just "take our lumps" for three years and try to correct the problem legislatively in the new 1990 farm bill.

Mr. Chairman and members of the subcommittee, it is because of this type of irresponsible administration of the 1985 Food Security Act, which clearly gives the Secretary of Agriculture the discretion to be "Fair and Reasonable", that we are here before you today. While there is no question that the barley target price and deficiency calculation formula need to be corrected in the new farm bill. It is painfully clear that the new Food Security Act will not be implemented until the 1991 crop year.

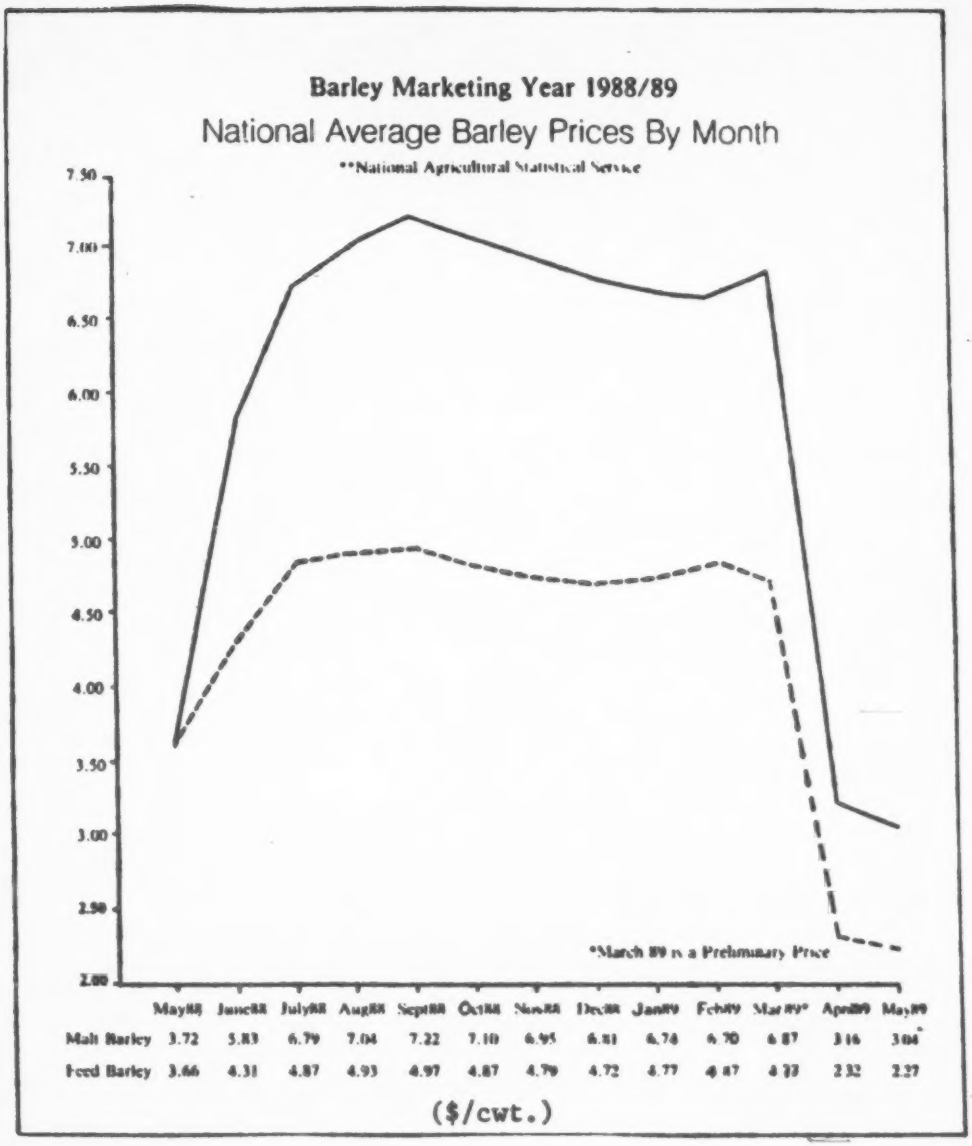
The barley growers in this country will be forced to repay the entire 1988 advanced deficiency payment beginning December 31, 1989. The USDA estimates that barley growers will return approximately 94 million dollars; 10 million dollars will come from the state of Idaho alone. It now appears we will have to repay a portion of our 1989 advance deficiency as well, and in a year when feed barley is returning 27 cents a bushel less than last year. Who knows what is in store for us in 1990?

Correction of the problem in the 1990 farm bill is imperative, but many barley growers cannot, and should not have to, wait until then to be treated in a "Fair and Reasonable" manner. The Barley Correction Act of 1989-H.R. 2565- addresses our concerns immediately. Therefore, I urge this Subcommittee to support Congressman Stalling's legislation to restore equitable treatment of the barley producers in this country under the 1985 Food Security Act.

I would suggest to you that the immediate problem is one specifically of barley; but that in a broader sense, the real issue is one of fairness. While some of you no doubt represent districts which do not have a large number of barley producers, I urge you to look past commodity specifics. Simply put, a gross inequity in the 1985 Food Security Act has been discovered and needs to be corrected <u>immediately</u>.

APPENDIX

Figure 1



TESTIMONY OF BYRON L. DORGAN

CONCERNING THE BARLEY TARGET PRICE

before the
WHEAT, SOYBEANS AND FEED GRAINS SUBCOMITTEE
U.S. HOUSE AGRICULTURE COMMITTEE

Nov. 9, 1989

Mr. Chairman and Members:

There are farmers in North Dakota who like to see America drinking beer because they grow barley, and barley is used to make beer. And, some North Dakota farmers grow corn, and they like to see people picking up cornflakes at the supermarket. But, I suspect none of those farmers would suggest we have beer on our cornflakes in the morning.

However, in our commodity program we've been pouring beer on the cornflakes for years. We've been putting barley and corn in the same bowl. Mixing the two -- which you would attest to if you tasted such a concoction -- does neither the corn or the barley much good.

So, I ask for a change in the recipe for 1991 and thereafter.

Despite the fact that both corn and barley are used to feed livestock, the two commodities are quite dissimilar. A third of barley raised in this country is used to make beer. Even as a feed grain, barley's uses and nutritional properties are quite different from corn. And, as long as science continues to learn more about the nutritional properties of barley and corn, and as long as technology continues to find new uses for the two crops, the differences between barley and corn will only grow. I don't believe the U.S. government should try to bind the two together in the farm program any longer.

Did you know, for example, that while decades-old USDA studies keep barley at 80-85 percent of corn's feed value, barley actually has a higher nutritional level than corn when fed to sheep.

What I'm saying is that science is quickly outdating reasons we've used in the past to set target and loan prices for barley and oats as a percentage of the same prices for corn. In the farm program, we been content to just let barley and oats follow along at a prescribed price distance, forming the tail of the feed grains program.

I hope you understand that I am making no judgments here about target and loan prices for corn itself. What I would like to see for all of the grains in the 1990 farm bill is a conversion from base acres to bushel allotments for each farm, and a substantially higher target price on a limited number of bushels for all of the grains. But, let me first finish with the barley target price.

Tying barley to corn is only half of the problem that barley seems to have in the target price arena. The other half is the way prices for malting barley is figured into the average farm price. It's the difference between the target price and the average farm price that forms the deficiency payment farmers receive.

Barley's problem with the average farm price has been aggravated in recent years of drought on the Northern Plains, which has reduced the supply of malting quality barley and driven the price up. Malting prices have often been around $2 higher than feed barley prices.

Barley growers have studied the way USDA figures average barley prices, and have found that malting prices are weighted much too heavily into the average. That happens because all malting barley ends up in the national market pipeline on its way to malsters or seaports. Much of feed barley, meanwhile, is bought and sold locally, often between farmers and livestock feeders without going through a local elevator. So, when prices are taken for the USDA average, malting barley becomes more of the average than its 30 percent share of the barley market would warrant.

In summary, deficiency payments on barley get squeezed from the top end by their artificial attachment to corn, and inflated from the bottom by the overweighting of malting prices. What's left in the middle -- the deficiency payment -- becomes the short straw of the commodities program.

For those reasons, I would like to see this committee treat barley separately in the 1990 farm bill. And, when you do that, you will probably find that barley is due for a higher target price. The current target price is about 90 percent of the total cost of production, according to the national average of costs reported by USDA. I hope this committee sees the farmer's average cost as the very minimum for a target price.

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

November 8, 1989

TO : House Agriculture Subcommittee on Wheat, Soybeans and Feed Grains
Attention: Anne Keys, Greg Frazier

FROM : Carl W. Ek
Analyst in Agricultural Policy
Environment and Natural Resources Policy Division

SUBJECT : The Oats Situation

This memorandum is in response to your request for information concerning the oats situation and possible changes in the Government program for that commodity.

Until recently, oats have been mainly used in the U.S. as a feed grain. However, demand for oats as a food grain has risen sharply in the last two years following reports that increased consumption of that grain may help reduce serum cholesterol levels. Notwithstanding this growth in demand, U.S. oats production has fallen steadily since 1985.[1] The resulting gap between stronger demand and diminished supply has necessitated ever-increasing imports of oats. During the 1970s, the United States exported between 10-20 million bushels of oats annually; today, it is the world's largest importing nation--in 1988, U.S. oats imports from Sweden, Canada, Argentina, and other countries reached an estimated 68.4 million bushels.[2]

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[1] Although food demand for oats has been on the rise, its use as a livestock feed has dwindled as producers have begun to substitute lower-priced corn. Oats are still widely used as a horse feed ingredient.

[2] Food processing industry representatives have pointed out that for most of their end uses, high oats protein levels are a desirable characteristic. The protein levels found in imported oats, however, tend to be lower than that of the oats that used to be raised in the United States. From industry's perspective, then, imports are not a satisfactory substitute for domestically-produced oats.

In general, most analysts attribute the fall in U.S. oats output to the interaction of domestic farm programs. Despite rising oats prices, relatively higher program benefits for other crops--mainly wheat, barley, and corn--have induced farmers to grow these commodities rather than oats--even though these other crops have been in surplus. All four of these grains are covered by Federal programs; that is, farmers who grow these crops are eligible for both price supports (nonrecourse loans) and income supports (deficiency payments). Many farmers who take part in Federal farm programs--and participation rates have been at record levels in recent years--usually own land that will permit them to grow either oats or one or more of the other above-mentioned grains; few have chosen to plant oats.

The problem of reduced oats production is due specifically to two economic factors greatly affected by programs: price and risk.[3] The target price levels (a congressionally-set "ideal" price guaranteed to eligible farmers) established in the Food Security Act of 1985 (P.L. 99-198, also known as the 1985 farm bill) have consistently exceeded market grain prices since the legislation was passed more than three years ago. In deciding which crop to grow, then, a farmer who has the option of raising either oats or some other program crop bases his planting decisions on relative target price levels rather than what he thinks relative market prices will be after harvest.

For example, in the 1987/88 program year, target prices for wheat and oats were $4.38 per bushel and $1.60 per bushel, respectively. Average U.S. yields were 37.7 bushels per acre for wheat and 54.0 bushels per acre for oats. A farmer with average yields on 100 permitted acres (that is, land on which he grew his crop after satisfying acreage reduction requirements) would therefore earn approximately $16,500 from growing wheat (that is, the loan [or market] value plus deficiency payments times average yield times the number of acres), as opposed to $8,640 from growing oats.[4]

The other major reason why many farmers have opted for wheat (or corn or barley) rather than oats is related to the risk posed by the crop acreage

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[3] Some analysts also claim that the Conservation Reserve Program (CRP) has withdrawn a significant amount of oats acreage from production--USDA estimates approximately 1 million acres. See: U.S. Department of Agriculture. Economic Research Service. Commodity Economics Division. Oats: Background for 1990 farm legislation. AGES 89-46. Washington, D.C. 1989. p. 25.

[4] The relative production costs of these two crops will also play an important role in determining which one will be planted. In the Northern Plains region from 1985 to 1987, total cash expenses for raising wheat ranged between $11 and $17 per planted acre higher than for raising oats. See: U.S. Department of Agriculture. Economic Research Service. Economic Indicators of the Farm Sector: Costs of Production, 1987. ECIFS 7-3. Washington, D.C. February, 1989. Pages 42 and 47.

base formula. If a wheat farmer, for example, were to choose to take advantage of expected higher prices one year and plant oats instead, he would reduce his future wheat program payments if he ever switched back to wheat, because he would lower his wheat crop base. Even though the market might be signaling that he should plant the relatively higher-priced commodity (oats), the farmer would be taking a chance to do so because he would risk losing assured future wheat target price protection. A farmer's total deficiency payments are based on his per-bushel deficiency payments[5] times a percentage of his crop base. His wheat crop base, for example, consists of a five-year average of acres devoted to that commodity. So if a wheat farmer with 100 acres grew wheat for four years and then planted oats the fifth year, his wheat base would be:

$$\frac{100+100+100+100+0}{5} = 80 \text{ acres}$$

When the target price of a commodity is at a level that is likely to return a profit to the farmer, most producers who are able to raise that commodity will seek to maximize their returns and minimize their risk by growing as many bushels of that commodity on as many acres as they can. As noted earlier, oats have had a relatively lower target price under the 1985 farm bill, and thus have provided a smaller return to farmers than other grains. Even when the market price rose significantly, most farmers still hesitated to switch to oats because they did not want to risk diminishing their base for one of the other grains.

Congress has already taken steps to address the oats problem. Farmers have been permitted to grow oats on other crop bases under the 1988 Disaster Assistance Act. And the 1987 Budget Reconciliation Act limited the acreage reduction requirement for oats in the 1989 program to 5 percent--half of that for other program commodities. According to industry estimates and prospective planting reports, however, it does not appear so far that oats production has responded significantly to these incentives.

There are several additional approaches Congress might consider to encourage greater oats production, including:

- o raise the target price for oats;
- o lower the target price for other grains;
- o do both of the above;
- o make rules governing base determination more flexible, so that farmers would be allowed to switch from one crop to another in

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[5] A per-bushel deficiency payment is the difference between the target price and the higher of the market price or the nonrecourse loan rate.

response to price signals, while still preserving their original crop base;

- pay farmers only on a percentage of their permitted acres.[6]

All of these options have their pluses and minuses. By simply raising the target price for oats high enough, Congress could coax additional bushels into production.[7] However, a sufficiently large increase in the oats target price might also increase future outlays for the U.S. Department of Agriculture (USDA) at a time when the Office of Management and Budget (OMB) is calling for additional reductions in farm program spending.

On the other hand, a proposal to lower the target prices of corn, wheat, or barley would face resistance from other quarters. Most wheat and corn farmers would likely object to having their income support levels reduced just to shore up production of oats, which, in terms of the volume of production, is a relatively minor commodity.

Under the 1985 farm bill, the Secretary of Agriculture has discretionary authority to allow producers to switch up to 10 percent of their crop bases from one crop to another; to date, USDA has not permitted producers to do so. Some Members of Congress support legislation that would take this decision out of the Secretary's hands and give the producer the option of shifting a portion of his base from one crop to another. This approach would give producers greater flexibility to respond to commodity price changes, but USDA would likely object on the grounds that such a provision would hamper the Secretary's ability to manage aggregate commodity supplies from year to year.

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[6] Under this proposal, a farmer with a wheat base of, for example, 100 acres might be required to idle 10 acres under an acreage reduction program, but might have his deficiency payments based on 80 acres, rather than the full 90 acres, as under current programs. The farmer might then be permitted to grow oats (or some other crop) on the 10 acres not idled or planted to wheat (the difference between his permitted acreage [90 acres] and his payment acreage [80 acres]). For more information, see: U.S. Library of Congress. Congressional Research Service. The Triple Base Plan. By Carl W. Ek. 89-381 ENR. June 26, 1989.

[7] In defense of an oats target price hike, supporters might note that, since 1982, when deficiency payments were first offered to oats producers, the oats target price was set in relation to the feed value for corn (about 51 percent). However, the recent increase in human consumption of oats might argue for the target price to be set proportionally in relation to both a food grain, such as wheat, as well as to corn.

The idea of paying farmers on a reduced percentage of their bases has at least two major attractions for policy makers: it would help shrink Government spending on agriculture, but, unlike lower target prices, the reduction might not amount to a dollar-for-dollar cut in farm income, as farmers would still be able to raise other crops on their unpaid permitted acres. An important question policy makers face under this scenario is which crops farmers should be allowed to grow. If they were allowed to raise program crops, this might, like the previous option, reduce the Secretary's ability to control supplies.[8] If farmers were permitted to grow only non-program crops, then supplies of those commodities would rise and prices would fall; this would adversely affect the incomes of farmers who have raised crops such as potatoes, sunflowers, or dry edible beans, none of which receive Federal price or income supports.

There is at least one other combination of program changes that might eventually increase oats production through correcting the perceived current income support disequilibrium, but it is dependent upon the direction Congress takes when it shapes a new farm bill next year. Under the Food Security Act of 1985, both target prices and loan rates were lowered gradually each year; if the 1990 farm bill were to continue this trend, Congress could freeze or even slightly raise the target level for oats while allowing targets for other grains to fall over time.

Budget savings under this option might not be as large as they would be if the target price for oats were also lowered, but several factors would mitigate this effect: 1) oats target prices, at least in the initial years, would likely still be below market price levels, so no deficiency payments would be made; 2) of all U.S. program grains, oats production is the smallest, which means that any total deficiency payments eventually made for oats would be relatively small; 3) each acre attracted into oats production would mean one less acre devoted to another type of grain--most of which have been in surplus in recent years and stored at Government expense; 4) once target price equilibrium with other commodities is attained, oats target prices could be scaled down in the out-years; and 5) as oats output once more began to satisfy domestic demand, imports would diminish, assisting the U.S. trade balance.

This option constitutes a long-term approach that assumes Congress will continue to gradually lower target prices--a tenuous assumption, according to some observers. If the objective of policy makers is to meet growing U.S. oats demand through domestic production in the short term, Congress might choose to rely on one of the other methods already mentioned, such as expanding authority for farmers to shift their crop bases to oats from some other grain, or allowing producers to grow oats on unpaid permitted acreage if that option is adopted.

If you have any questions or need additional information, please call me at 707-7286.

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[8] For example, if USDA had an acreage reduction program in place for both wheat and corn, and if all corn producers decided to grow wheat on their unpaid permitted corn acreage, then USDA's supply control efforts for wheat would largely be thwarted.

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